

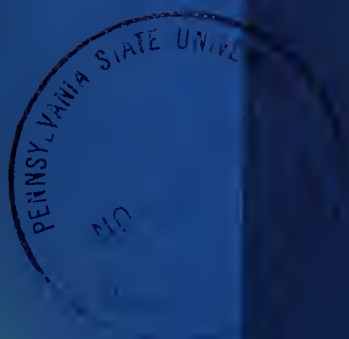
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ACCOUNTING MANUAL

for
Multi-funded
Economic
Development
Districts



U.S.
DEPARTMENT
OF COMMERCE

Economic
Development
Administration

ACCOUNTING MANUAL
FOR MULTI-FUNDED
ECONOMIC DEVELOPMENT DISTRICTS

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A C K N O W L E D G M E N T S

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FOREWORD

The growth of Economic Development Districts (EDD) during their relatively short life is evidence of the need that was fulfilled by their creation. Along with all growth comes problems. As EDDs became funded by agencies other than the Economic Development Administration (EDA), accounting and financial management complexities generated problems for which little relevant information had been published. For this reason, EDA has undertaken the development of this accounting manual especially for use by multi-funded Economic Development Districts.

The manual is intended to be a practical how-to-do-it guide for executive directors, business officers and public accountants in the establishment and maintenance of efficient accounting systems which will provide meaningful financial information for District management. We believe the frame-work provided herein is sufficient to make a significant contribution toward improving the overall quality of District financial management.

District executives and public accountants are urged to review the manual and adopt all or just those parts of it as fit their needs. Should assistance or advice be required concerning the use or implementation of any part of this manual, please contact the appropriate EDA Regional Office.


Robert A. Podesta
Assistant Secretary
for Economic Development

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INTRODUCTION

A Multi-funded Economic Development District (EDD) has unusual accounting problems since it is a unique organization. Originally formed as non-profit corporations comprised of representatives of local governmental bodies and private citizens to improve the economic well-being of their territory, many EDD's have expanded their role to include comprehensive regional planning and have become action agencies which carry out many specific projects for State and Federal agencies.

Typically, participating governments pay dues based on population within their jurisdiction. These local dues, which are voluntary, become the basis for matching grants from other sources.

When EDD's were first organized, they normally had only two sources of revenue, local dues and grants from the Economic Development Administration (EDA), to carry out various parts of an economic improvement plan. These revenues were used to pay all the expenses incurred in running the organizations. As other agencies recognized the merit of these EDD's, other grants became available to them to carry out programs for related but different purposes. It was this addition of other grants which complicated the accounting for the EDD's. When an EDD had only one grant, which normally began and ended with the fiscal year of the EDD, it contained all the expenses of the district, and the bookkeeping system could be set up to produce the reports necessary to fulfill the financial data required by EDA.

However, when the additional grants came along, problems began to arise. Frequently the additional grants did not coincide with the EDD's fiscal year, which made the drawing of an overall budget difficult and complicated the bookkeeping process since some costs had to be carried over more than one fiscal year to enable the district to report the grant expenditures correctly. Also, a problem existed as to the allocation of expenses.

This allocation of expenses is where the uniqueness of multi-funded EDD's is magnified. Historically, most recipients of Federal grant funds were in the business of doing something other than administrating grants. Since those organizations which had other "business" had regular sources of income which paid their normal operating expenses, the grant money was considered "extra" and often had either no overhead allowed or a stipulated nominal sum included in the grant. Those organizations which had only one grant for revenue (such as the original EDD's) could charge all their costs to the grant. However, the multi-funded EDD has no other "business", and all of its costs must be charged to its grants or it will become bankrupt.

The crucial question for the budget manager of the EDD taking on its first additional grant became: "Since I have all my costs covered in the EDA grant, what am I going to charge to the new grant?" Most of the time, the new grant was charged only those additional costs which were to be incurred in administrating the new grant. Thus, if the EDD was renting a suite of offices which included a conference room, reception room, three offices and a storage room for \$300 per month and it became necessary to add one office at \$40 per month for the new grant, EDA was charged \$300 per month, and the new grant was charged \$40 per month. This situation became recognized as basically unfair to the grantors who were the early funding sources.

This manual provides a system which can be applied in toto or in part to eliminate most of the accounting problems experienced in the past by multi-funded Economic Development Districts. The account coding structure provided herein is designed to identify receipts and disbursements of funds by work project. This requires the use of only one set of books to record the transactions for any number of work projects. A method for developing cost allocation plans and indirect cost rates is provided so that indirect costs can be easily determined and equitably distributed to the various projects. Financial information needed in making management decisions

is provided as a basic product of the system in a form that is easy to understand and use. This system was developed and tested extensively at the Lower Rio Grande Valley Development Council, McAllen, Texas. Since completion of the test, it has been installed and is operating successfully.

GENERAL OBJECTIVES OF THE ACCOUNTING SYSTEM

It is the purpose of this manual to provide multi-funded Economic Development Districts with a double entry, integrated accounting system which will allow for the accumulation of costs by grant, reasonably distribute common costs, and provide an EDD with periodic reports of progress and an annual financial plan to enable management to make better financial decisions.

To fulfill this purpose, the accounting system should be on the accrual basis, provide management with meaningful information for the evaluation of alternatives, provide for the stewardship of assets for the protection of the various interests, be interfaced with the work program so that the goals of the district can be co-ordinated with its financial resources, and provide internal control of the transactions to preserve the integrity and reliability of the records.

ACCOUNTING CONCEPTS TO BE OBSERVED

Basically, all generally accepted accounting principles are applicable to multi-funded Economic Development Districts. Although there is no "official list" of accounting principles, the following is a brief description of how the most common principles apply to EDD's.

1. Specific Entity: The EDD is an independent entity which is accountable not only to the grantor agencies, but to its members and to the public which it serves.

2. Going Concern: While many grants may be on a year-to-year basis, the districts have established themselves as desirable vehicles for many agencies to carry out their programs, and as long as they continue to do so, their services will be sought from other sources. Therefore, it can be reasonably assumed that the district will continue beyond each fiscal year and that items such as accounts receivable, prepaid expenses, and depreciation of fixed assets over their useful lives are meaningful in the presentation of the district's financial statements. Specifically, for this manual the going concern principle is the authority for not recording grant commitments which extend beyond the fiscal year in the EDD's fund balance. If the district were required to show as a liability its matching share commitments which were beyond the date of a particular balance sheet without being able to include as assets those resources which will become available during the future period, it would result in a gross understatement of the district's financial position. However, it would be appropriate to disclose as a footnote to the financial statements the fact that these commitments exist.

For example, a district on the calendar year may not assess its dues until February 1st. It would not be proper to include those dues in its December 31st report since they are not receivable on that date. However, they will be available for use during the coming year. At the same time the district might have a 25% local share matching grant which runs from June 1st to May 31st. This grant might require the use of \$5,000 in local funds during the ensuing year to fulfill the matching requirements of the grant. It would not be proper to show the remaining grant commitment as a liability on the December 31st statement. The obligation will not occur unless the district spends funds on that grant during the year, a contingency accepted under the going concern principle.

3. Matching of Income with Expenses: The accrual basis accounting system will enable this principle to be met.

4. Monetary Expression of Accounts: All transactions in an accounting system must be reduced to terms of money. Inventories, pre-payments and fixed assets must be shown in dollars rather than things.

5. Consistency: This principle requires that similar transactions be reported in the same manner both within a period and from period to period. This principle is met in the system described in this manual by providing such things as a chart of accounts for consistent classification, written policies for direct and indirect costs, and written personnel policies.

6. Sound Dollar: Since the major portion of the district's funds is represented in cash or short term assets, changes in the value of the dollar would have no applicability to EDD's.

7. Conservatism: This manual provides for this principle by recognizing income only when earned and by recording liabilities as they are incurred.

8. Internal Control: This manual provides for the dependability of data through the system of checks and balances which is part of a system of internal control.

9. Materiality: This concept is actually the basis on which the concept of an indirect rate and the allocation of indirect costs is justified. Any inequities produced by using an indirect cost rate are not material in relation to the cost and effort required to directly cost each item.

10. Timeliness in financial reporting requires estimates: Accounting is an art and not an exact science. The only 100% accurate income statement would be one which covered the first day of life of an entity to its last. However, most people don't want to wait that long, and accountants must make estimates such as allowance for uncollectable dues and depreciation, which are at best good guesses.

In addition to the generally accepted accounting principles outlined above, this manual adopts the cost principles described in OMB Circular A-87 which is reproduced herein. Since A-87 is applicable to all Federal agencies and most grant funds are Federally derived, all the principles set out as to allowability and non-allowability of costs should be applicable to the majority of grants. However, as outlined, each grantor agency, in its contract with the EDD, has the right to further restrict the allowability of costs. The contract is the final authority for their eligibility.

This manual calls for two cost pools, employee benefits and indirect costs. The employee benefits are allocated against chargeable salary costs, and the indirect costs are charged against total personnel costs. It should be realized that the same dollars of cost would be charged against a cost objective under this particular system if both of these costs were accumulated in one pool and distributed against chargeable salaries. However, for clearer financial reporting, the two pools are used.

The only real exception between this manual and A-87 is found in the mechanical steps provided for a cost allocation after it has been prepared. This manual provides (in the section on cost accounting) for the submission of the plan for approval, while A-87 enables a local government to retain the plan until audit.

The final accounting concept used in this manual is that of interfacing the work program with the financial plan (budget). Since the entire basis of allocation of personnel costs and indirect costs is on the basis of time records, it is necessary for the district to define its work activities in terms of cost objectives. A cost objective is the lowest level of detail that the district desires to identify and accumulate costs. Very often this level will be a grant. However, if the district wishes to break a grant down into segments and identify the related costs, it may do so by assigning a cost objective code for each segment. By using the account coding structure outlined herein, costs will be accumulated by these segments. Each cost objective must be assignable to one grant, contract, or agreement. Since each grant eventually must be reported in total, the cost objectives must be able to accumulate to these levels of reporting.

The concept of interfacing of work programing with financial planning is not difficult to understand. It requires the district to list all the activities in

which its personnel will be doing work during the year and assign a work program code and a cost objective code to each activity. As the staff fill out their time sheets, they find their activities on the list and fill in the activity code on the time sheets. The activities are accumulated by cost objectives, and personnel costs are distributed to cost objectives. If a staff member engages in an activity not on the list, that activity must be added to the list and assigned an appropriate cost objective code.

ELEMENTS OF THE ACCOUNTING SYSTEM

There are four groups of "things" which constitute an accounting system:

(1) Written Procedures such as personnel policies, purchasing policies, direct vs. indirect policy statements; (2) Formal Books of Account such as journals and general ledgers; (3) Supporting Documentation such as canceled checks, time sheets, invoices, contracts, etc., which back up the books of account; and (4) Budgets. Each of them is discussed in this manual.

Written procedures are generally policy statements which do not often vary. As an EDD grows, it is usually necessary to change the statements from time to time so that they will fit the changing needs of the district.

A personnel policy should be adopted by the board of directors and copies furnished to all employees. Basically, it should contain the EDD's policy with regard to all matters concerning personnel and should deal with the matters outlined below:

- (1) Hiring and Firing: Who has authority
- (2) Salaries: Who can set, how often changed, merit raises, overtime, compensatory time
- (3) Fringe Benefits:
 - (a) Group Insurance -- how much, what kind, district's share, employee's share, who is to change plans, who is included or excluded
 - (b) Social Security -- must have employee's consent
 - (c) Retirement Plans -- how much, what kind, district's share, employee's share, vesting, administration
 - (d) Sick Leave -- how accumulated, rate accumulated, what constitutes sick leave, maximum amount accumulated, what happens at termination

- (e) Annual leave -- how accumulated, rate accumulated, how small a unit can be taken, notice required before taking, amount paid on termination, maximum amount accumulated
- (f) Administrative leave -- military duty, jury duty, emergencies
- (g) Leave of absence -- maternity, other, rights of employee and employer

(4) Travel:

- (a) Amount mileage, air fare classes, per diem (also when starts and stops), who is reimbursed, how often, travel advances, documentation required
- (b) Approval required -- in region, out of region
- (c) Moving expenses of new employees

(5) Any other policies concerning personnel

Purchasing procedures set out the authority and the mechanics required in purchasing for the district's operations. A sample of a purchasing procedure is contained herein.

The description of a direct vs. indirect policy statement is contained in the section on cost accounting.

SAMPLE PURCHASING PROCEDURE

Purpose:

The purpose of this procedure is to establish guidelines and regulations governing the purchase of supplies, equipment, contractual services, and other items by the development district. This procedure is designed to insure that the development district's funds are expended in accordance with sound business practice, are recorded in accordance with good accounting procedure and that expenditures meet the requirements of Federal and State agencies assisting in financing the district's activities.

Procedure:

All purchases of supplies, equipment, and contractual services for the district shall be made in accordance with the following:

1. Initiation of Purchase: A purchase may be initiated by any staff member authorized by the Executive Director or Assistant Executive Director to initiate a purchase. When a purchase is initiated, a standard requisition or a memorandum describing the type of purchase or item and quantity of items desired shall be filled out. The requisition or memo shall be signed by the staff member initiating the purchase.

2. Authorization of Purchase: The staff members of the District may make direct purchases of items when the total cost of the purchase does not exceed \$25. When items to be purchased are anticipated to cost in excess of \$25, approval of the purchase requisition by the Assistant Executive Director of the district is required. All requisitions, regardless of amount, shall be submitted to the Assistant Executive Director, although orders totaling less than \$25 may be

submitted to the Assistant Executive Director after the order is made.

3. Qualification of Vendors: All vendors providing supplies, equipment, or services to the District shall be reputable firms having the demonstrated capacity to produce or provide supplies, equipment and/or services, and other items within a reasonable period of time or within the time limits established by the district. Vendors shall be subject to disqualification if they are found to misrepresent quality, quantity, or price of supplies, equipment, services, or other items delivered. Vendors will also be disqualified if reasonable time limits or time limits established by the Development Council are exceeded.

4. Selection of Vendors: Whenever possible, qualified vendors will be selected on the basis of price quotations or competitive bids. Competitive bids will be requested for all items exceeding \$100 in unit cost and for aggregate orders exceeding \$250. Price quotations will be solicited from qualified vendors for items for which unit costs do not exceed \$100.

Under some circumstances, the district may purchase supplies, equipment, services, or other items without bids or quotations. Bids or quotations shall not be taken if a qualified vendor is the sole source of the supplies, equipment, services, or other items to be purchased or in cases of emergency, when immediate delivery of supplies, equipment, services, or other items is necessary to the continued provision of adequate services by the district. All sole source purchases shall be reviewed by the Executive Director or by the Assistant Executive Director if the Executive Director is not available for the review. In any event,

the Executive Director shall be apprised of any sole source purchase as soon as he is available. A written memorandum explaining all sole source purchases exceeding \$100 shall be attached to the vendor file copy of the appropriate purchase order.

5. Purchase Orders: All purchases (except under specified circumstances) shall be made by the submission of a purchase order form to a vendor. The purchase orders shall be numbered sequentially. The exceptions to the use of a purchase order are emergency telephone orders, which shall be documented by a memo by the staff member placing the order; contracts for professional services, where the contract shall serve as detailed documentation for entering into agreement for the provision of services to the district; and bills for utilities and office rental.

A purchase order shall be filled out in triplicate. It shall list the date, name of vendor, and type and quantity of supplies, equipment, or other items to be purchased. The purchase order will be signed by a staff member who has the officially designated responsibility for signing purchase orders. The initial copy shall be submitted to the vendor as authorization for the purchase. The second copy shall be filed sequentially by number and shall constitute an official record of all purchases made by the district. The third copy shall serve as an official authorization for disbursement after orders have been satisfactorily filled by vendors.

6. Disbursements to Vendors: All disbursements to vendors shall take place in accordance with the following:

a. Receipt of all supplies and equipment shall be certified by a staff member of the district who has been designated responsibility for receipt of all purchased items. Deliveries shall be checked against the third copy of the purchase order (or the purchase order copy of the requisition) and shall be checked for

conformance to the specifications contained in the order. A delivery slip from the vendor shall be required before the Development Council will accept any item. The delivery slip and the third copy of the purchase order will be signed if the delivery is in conformance with the purchase order. The delivery slip, requisition, and the third copy of the purchase order will be filed in the appropriate section of the accounts payable file, which will be organized alphabetically by the vendor.

b. Invoices shall be matched with the receiving slip, purchase order, and requisition when they are received by the Development Council. The invoice shall be examined to insure that the amount requested for payment matches costs, types, and numbers of items listed on the receiving slip.

c. The invoice, purchase order, requisition, and receiving slip shall be reviewed by the Assistant Executive Director and certified as to qualification for payment. No invoice (or bill) shall be paid without certification by the Assistant Executive Director.

d. Purchase orders will not be required for utility services (telephone, electricity, and gas) or for rental payments.

Bills for these services shall be reviewed by the Assistant Executive Director and shall be paid in accordance with standard procedure for disbursement of funds. However, copies of all bills received for rent and utilities shall be retained and filed on a chronological basis for a period of no less than three years.

e. Upon proper certification of invoices and bills, disbursements shall be made in accordance with the standard procedures for issuance of checks and vouchers by the Development Council.

FORMAL BOOKS OF ACCOUNT

Formal Books of Account generally fall into two categories: Journals which are used to record and summarize individual transactions and Ledgers which contain totals and balances that are accumulations of information from journals. The accounting system in this manual requires the following Books of Account:

JOURNALS

(1) Cash Receipts Journal (one for each bank account)--This should contain an entry for each receipt of money. Districts which take in currency would need a cash receipt book to record the receipt of cash. Other districts could use duplicate deposit slips as a posting source for this journal. (Exhibit I)

(2) Cash Disbursements Journal (One for each bank account)--This should contain an entry for each check issued. Costs for each cost objective should be summarized at the end of each month and posted to the appropriate account. (Exhibit J)

(3) General Journal (One for each Fund)--This should be used to record each Journal Voucher. (Exhibit K)

(4) Payroll Register: This should be used to record each payroll check and provide the proper distribution of amounts withheld from employees' wages. (Exhibit L)

(5) Standard Entries Journal: This should be used to make repetitive journal entries which have the same debits and credits but not necessarily the same amount. It can be used to distribute payroll costs and allocate Fringe Benefits and Indirect Costs. (Exhibit M)

LEDGERS

(1) General Ledger: There should be one for each fund, used to summarize all real and nominal accounts. Any standard ledger form providing debit, credit, and balance columns can be used.

(2) Subsidiary Ledgers: These should be used only if the volume of individual accounts within a category of the general ledger warrants a detailed list rather than using consecutive accounts in the general ledger. They most commonly will be used with Local Dues receivable.

SUPPORTING DOCUMENTATION

Supporting Documentation is as varied as the transaction it documents.

The following is a list of commonly found Supporting Documentation:

- | | |
|--|---|
| 1. Checks | 10. Deposit Slips |
| 2. Purchase Orders | 11. Bank Statements |
| 3. Invoices | 12. Letters of Authorization
and Certification |
| 4. Contracts | 13. Board of Directors' Minutes |
| 5. Time Reports (Exhibit N) | 14. Petty Cash Disbursements Slips |
| 6. Payroll Distribution Sheets (Exhibit O) | 15. Bank Reconciliations |
| 7. In-kind Vouchers (Exhibit P) | 16. Telephone Logs |
| 8. Written Policies | |
| 9. Cash Receipts | |

The district should endeavor to use commercially available forms whenever possible because of cost. Examples of forms which are not commonly available are contained herein.

BUDGETS

Budgets are estimates against which progress toward a goal can be measured. Budgets play an important part in the financial management of an Economic Development District. In developing the Cost Allocation Plan, an annual budget for the EDD is planned. In addition, the EDD must develop separate budgets for each grant for which it applies, and these budgets often do not have the same fiscal period as the EDD's fiscal year. Exhibit Q is a form which enables management to allocate grant costs between the EDD's fiscal years.

The basic budget documents for the EDD are documents which are contained in the Cost Allocation Plan (Exhibits B-G). Each grantor agency will have its own form for the submission of budgets for its grant. No attempt will be made in this manual to discuss the various types of grantor budgets, but the user must be cautioned to provide information within the accounting system to satisfy the reporting requirements of the various funding sources.

FINANCIAL REPORTS

There are two basic types of financial reports for Economic Development Districts: (1) periodic reports for measuring progress toward budgets, (2) annual reports which may or may not be audited by independent Certified Public Accountants.

Periodic reports should be generated by the accounting staff of the EDD and should provide information useful to the EDD and the grantor agency as measurements against the budget. Exhibit R shows the report which should be issued at least quarterly for each cost objective. If the cost objective is a level below a grant, then the form could be modified somewhat. Exhibits S and T are reports which will show the district's status with regard to its cost pools.

Annual reports issued by the EDD should be a report of the entire financial operation for the fiscal year. The financial statements should be complete, and if possible, an opinion by an independent accountant should be contained in the report. Exhibits U, V, W, and X are examples of the statements which should be contained in the annual reports.

RECORDS ADMINISTRATION

An important feature in having sufficient documentation of accounting transactions is being able to locate the supporting documents in a reasonable length of time and in an orderly manner. Too often accounting departments are associated with clutter, and much time is spent searching for documents of various kinds. It is recommended that a system be established for the location of each type of document in some prescribed order. Normally the Chief Financial Officer is responsible for the maintenance and control of the financial records of an EDD, although he may delegate some of this responsibility.

The following is a list of the more common types of accounting records and a brief description of how they might be kept:

1. Checks: A three-part voucher type check would be kept as follows:
 - a. Original--The cancelled check should be kept with the bank statement and filed by the date of the bank statement.
 - b. 1st copy--This should be filed in a binder in numerical order.
 - c. 2nd copy--This should be attached to the supporting document (invoice or other) and filed alphabetically according to the vendor's name. A new Vendors File should be begun each year.
2. Purchase Orders: A three-part form would be filed as follows:
 - a. Original--This would be sent to the vendor.
 - b. 1st copy--This should be kept in a pending file until filled, then filed with the invoice and 2nd copy of the check.
 - c. 2nd copy--This could be filed in a binder in numerical order.
3. Time Reports (Filed by month): Time reports of all employees can be filed in one file folder.
4. Journal vouchers: These can be filed by number for each month and each month kept in a file folder.
5. Contracts: These should be filed alphabetically according to the Vendor's name.
6. Deposit slips:
 - a. The original is filed with the bank statement.
 - b. The duplicate can be filed in order by date in a binder.

These and other accounting records should be kept in a proper place so that they are available to auditors and other authorized personnel, but not where they must be handled by many people in the ordinary course of business not connected with accounting.

Most financial records should be kept for a reasonable length of time. Most grant agreements specify the length of time which the records must be kept, but normally, it is for five years or until audited, whichever comes first. A district should be careful not to destroy records until specifically authorized to do so. However, a specific plan of systematic destruction of records is essential to proper management of space and should be developed. Normally the only accounting record which should never be destroyed is the General Ledger, since it should contain almost all essential information.

INTERFACE OF WORK PROGRAM WITH COST ACCUMULATION

The following document is illustrative of one of the most essential parts of co-ordinating the budget process with Accounting. Each activity that district personnel will be engaged in during the year should be assigned to a category, given a work program code, and assigned to a specific grant. If in preparing this document, it becomes apparent that certain activities overlap, the basis by which the time is going to be charged can be determined in advance. As activities arise during the year, the list can be expanded; the district should feel free to modify the attached example to suit its needs. After this has been done, the personnel of the district can use the list to fill out their time reports; this practice should result in accurate charging of time to cost objectives.

For example, using the codes on the following document, if a person worked on personnel files, he would charge his time on his time report to A-04, which is personnel under administration. This time would be accumulated under the indirect cost objective and distributed to the indirect cost pool. If another person worked on a solid waste disposal plan, he would charge his time to B-04-02, which would be accumulated under the HUD cost objective and distributed at a direct cost to that grant.

CLASSIFICATION AND IDENTIFICATION CODE STRUCTURE FOR WORK

PROGRAM IDENTIFICATION

<u>Work Program Codes</u>	<u>Activities</u>	<u>Cost Objective</u>
A - ADMINISTRATION		
01	General Administration	INDIRECT
02	Program Legislation and Guidelines	INDIRECT
03	Membership	INDIRECT
04	Personnel	INDIRECT
05	Finance	INDIRECT
06	Annual Work Program	INDIRECT
B - COMPREHENSIVE PLANNING		
01	Comprehensive Planning - General	HUD
	01 Census	HUD
	02 Mapping	HUD
	03 Bi-National Planning	HUD
	04 Regional Goals	HUD
	05 Goals for Texas	HUD
02	Housing	HUD
03	Transportation	HUD
04	Environmental Quality Control	HUD
	01 Water and Sewer Planning and Management	HUD
	02 Solid Waste Disposal	HUD
	03 Air Pollution Control	HUD
	04 Open Space Environmental Resources	HUD

B - (Continued)

	05 Areawide Sewerage Plan	TWQB
05	Land Use and Physical Design	HUD
07	Human Resources	HUD
08	Model Cities	HUD

C - HEALTH PLANNING

01	Administration	HEW
02	Correspondence	HEW
03	Manpower Consortium	SOCHP
04	General Conditions	HEW
05	Health Manpower	HEW
06	Services and Facilities	HEW
07	Environmental Health	HEW

D - LAW ENFORCEMENT & CRIMINAL JUSTICE PLANNING

01	Comprehensive Law Enforcement and Criminal Justice Planning	CJC/PLANNING
02	Law Enforcement Training and Education	CJC/ACADEMY

E - INTERGOVERNMENTAL AND COMMUNITY SERVICES

01	PNRS - A 95 Review	EDA 50%/ HUD 50%
02	Joint Service Agreements	HUD
03	Technical Assistance	INDIRECT
04	Emergency Operations Communications Center	INDIRECT
05	Texas Communities Tomorrow	HUD
06	Model Building Codes and Ordinances	HUD
07	Capital Improvement Program	HUD
08	Council Meetings	INDIRECT

E - (Continued)

09	E & D Migrant Project	INDIRECT
10	Camps	INDIRECT
11	MDTA	INDIRECT

F - ECONOMIC DEVELOPMENT

01	General	EDA
02	Industrial Development	EDA
03	Transportation Facilities Development	EDA
04	Tourism & Recreation Resources Development	EDA
05	Public Works Development	EDA
06	Agricultural Natural Resources Development	EDA
07	Growth Centers and Positive Action Programs	EDA
08	District Action Program	EDA
09	OEDP	EDA
10	Business Loans	EDA
11	U.S., Mexico, etc.	EDA
12	Technical Assistance	EDA
13	Economic Development Districts	EDA
14	Action Bulletins	EDA

G - PUBLIC SERVICE CAREERS PROGRAM

01	General Administration	EDA/PSC
02	Training	EDA/PSC
03	Hiring Agencies	EDA/PSC
04	Enrollees	EDA/PSC

G - (Continued)

05	Supportive Services	EDA/PSC
06	Finance	EDA/PSC
		<u>Cost Objective Code</u>
EDA	- Economic Development Administration	01
HUD	- Department of Housing and Urban Development	02
HEW	- Department of Health, Education and Welfare	04
TWQB	- Texas Water Quality Board	09
CJC/PLANNING AND CJC/ACADEMY	- Criminal Justice Council	16
SOCHP	- State Office of Comprehensive Health Planning	21
PSC	- Public Service Careers	27
INDIRECT	-	92

COST ACCOUNTING

There are two basic types of costs which must be accounted for in any cost accounting system: direct costs and indirect costs. OMB Circular A-87 defines them as follows: "Direct Costs are those that can be identified specifically with a particular cost objective," and "Indirect Costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved." It should be noted that the only real difference between direct and indirect is the ability to identify the cost with a specific cost objective. No particular cost is in its nature direct or indirect. The only criterion is how readily that particular cost can be matched with a particular cost objective. Also, it should be noted that, at this point, no mention is made as to whether the cost is allowable or unallowable insofar as a particular cost objective is concerned.

Multi-Funded Economic Development Districts have a special problem in identifying many of their costs with a particular cost objective. Typically, the pattern of growth in one of these districts has been as follows:

- (1) Establishment of the EDD with an EDA planning grant and all costs of the district being chargeable to that grant.
- (2) The addition of one or more grants from other funding sources with the additional grant paying only those costs which increased with the addition of the new grant.

Obviously, the agencies which began funding after the EDD was in existence did not share in the full cost of operating their grant, since many of the "overhead" or common expense items were being paid for in the EDA grant.

OMB Circular A-87 provides means by which the Federal Government's grants can be charged a portion of those costs which are necessary to the operation of an organization but cannot be specifically identified as a cost of those grants. These documents provide for the establishment of "cost pools" where indirect costs can be accumulated and then prorated to various cost objectives on a reasonable and equitable basis. The entire

circular is reproduced at the back of this manual for reference, but only those provisions which are applicable to a normal EDD will be discussed in this section.

In most cases, a cost objective for an EDD will be a grant. The account code structure provides for a cost objective code to be used in connection with expenditures. If the EDD prefers or needs to break costs down below the grant level, more than one cost objective code can be used for an individual grant. However, in no case can more than one grant be included in a single cost objective code.

Simply stated, this manual provides that all direct costs for a cost objective be accumulated in one section of the general ledger with indirect costs to be accumulated in a separate section. Through a device known as an indirect cost rate, those indirect costs are prorated back to the cost objectives.

The indirect cost rate is a ratio between total indirect costs and the items in the particular cost objective against which these costs are prorated. A-87 provides two bases with which to prorate indirect costs: (1) personnel costs and (2) total costs less distorting items such as consultants and capital expenditures. A cost allocation plan is simply a budget which sets out the projected direct costs, the projected indirect costs, the projected base for allocation of these costs, thus arriving at an indirect cost rate (ratio) for these costs.

Although A-87 provides various bases for proration of indirect costs, it is felt the base normally applicable to EDDs will be the personnel cost base. The expenses shown in Accounts 9500-9650 in the chart of accounts are illustrative of the typical costs in an indirect cost pool. Because almost every one of the items will tend to increase with the addition of personnel, it seems equitable to prorate these costs against personnel costs. On the other hand, using a total cost basis would cause those cost objectives with items such as travel or printing to bear more of the items in the cost pool. This result does not seem to be as reasonable.

The basic steps necessary to prepare a cost allocation plan are as follows:

- (1) Prepare a direct vs. indirect policy statement.
- (2) Prepare a personnel costs worksheet.
- (3) Prepare an allocation of personnel plan.
- (4) Prepare a statement of employee benefits.
- (5) Prepare a statement for the indirect costs.
- (6) Prepare a statement for the base against which to prorate the costs.
- (7) Prepare a budget which contains all the costs of the cost objectives

and shows the allocation of indirect costs to these cost objectives.

- (8) Prepare a projection of local resources and requirements.

The documents needed to prepare a cost allocation plan are explained below:

(1) A Direct vs. Indirect Policy Statement--Each EDD should prepare a written policy which outlines the costs which it considers direct, the costs it considers indirect, and the reasons why it considers things thus. This document's purpose is to assure consistency in the charging of costs. A few basic concepts which are applicable to all EDDs are set out below:

- (A) A cost objective must have direct time before it can be charged with indirect costs.

(B) Costs which cannot be charged to a particular cost objective because of the terms of a grant cannot be prorated to the other cost objectives.

(C) Travel costs should follow the personnel costs of the person doing the traveling. For example, a person whose salary is charged to the indirect cost pool must also have his travel costs charged to the indirect cost pool.

(D) The policy should also include a statement which acknowledges that indirect time not only is time which is fragmented, but that some functions (such as payroll preparation, general administration, receptionist's duties, etc.) are indirect in their nature.

(2) Personnel costs worksheet: (See Exhibit B for a sample)

<u>Heading</u>	<u>Explanation</u>
Position	Named positions on the staff: includes all staff members, both professional and non-professional.
Basis of Pay	Normally, the annual rate is used. The amount per hour, week, or month should be disclosed.
Daily Rate	Computed as follows: annual - divided by 260 monthly - divided by 22 hourly - multiplied by normal working hours. Round all answers to nearest even dollar.
This year's salary	Reflects the actual amount to be paid for that position during the year. Some positions stop and start with grants; the EDDs personnel may fill more than one position during a year, but not at any one time.
Leave Earned *	Should be a function of the EDD's written personnel policy. If 10 work days' leave is earned annually, 4% will be very close to the actual amount.
Sick Leave Taken *	Should be an estimate based on a prior year's experience. Again, depending on the EDD's personnel policies, such things as time off for funerals, etc., may have to be considered here.
Holidays *	This percentage should be derived by dividing the approved number of EDD holidays by 260.
F.I.C.A.	Should be computed in accordance with the rates and earnings maximums of Social Security in effect for the period covered. This is the EDD's share.
Group Insurance	Costs should be obtainable from the carrier of the EDD's group plan.
Workmen's Compensation	Costs should be obtainable either from the EDD's insurance policy or its insurance agent.
Pension Plan Contributions	Costs should be obtainable from the plan.

* Released Time

(3) Allocation of Personnel Plan--This document reflects the estimated personnel efforts for each cost objective. In the example shown on Exhibit C, the chargeable salary obtained from the personnel costs worksheet is entered in the first column.

A column should be made for each cost objective of the EDD. Then the percentage of chargeable time per position should be spread under the appropriate cost objective, making sure that 100% is allocated for each position. Each salary is then prorated to each cost objective according to the appropriate percentage. The total direct salary costs for each cost objective are obtained by adding the salary amounts in each cost objective column.

(4) Statement of Employee Benefits--This document should contain the estimated costs of the items in the employee benefit pool. The amounts of these items should be obtained from the personnel costs worksheet. An example is shown on Exhibit D.

(5) and (6) Statement of Indirect Costs--This document (Exhibit E) should contain the estimated costs of the items which were outlined as indirect in the indirect policy statement. This statement should provide the base against which the indirect costs will be prorated.

(7) Annual operating budget--This document (Exhibit F) shows the overall operation of the EDD for the fiscal year. All direct costs are shown on it. The allocation of Employee Benefits and indirect expenses are shown by cost objectives. Also shown is the source of funds to finance the cost objectives.

(8) Projection of Local Resources and Requirements--This document (Exhibit G) shows the projected financial resources and requirements of the local EDD for the year involved. Note that the unrestricted state grant is considered in this statement since it can be used to match other grants. The Local requirements shown on this schedule should equal the Local requirements developed in the annual operating budget.

This complete set of documents constitutes an indirect cost rate proposal. The indirect cost proposal should be submitted to the Office of Audits, United States Department of Commerce, Washington D.C. 20230, for approval of a preliminary rate. The Office of Audits will review the proposal and issue a document which sets out the

approved provisional indirect cost rate. This document will entitle the EDD to use the provisional rate throughout the year on documents submitted to Federal Agencies for cost reimbursement, budget requests, etc. After the year's end, the same documents should be prepared using the actual amounts incurred and should be submitted to the same office for approval of a final rate. After audit, the Department of Commerce will establish a final rate which should be used to submit final reports to grantor agencies.

ACCOUNT CODING STRUCTURE

Each account in the General Ledger will have a seven digit account code. This code is broken down as follows: one-digit fund code, two-digit cost objective code, four-digit detailed account code.

Fund Code:

The one-digit fund code designates the group of accounts in which the account is located.

<u>Code</u>	<u>Fund</u>
1	Operating Fund - Contains local funds and those grants contained in the cost allocation plan
2	Custodial Fund - Contains those grants administered by the EDD but are not in the cost allocation plan because they do not contain salaries of the EDD Personnel
3	Fixed Assets Fund - Contains the cost and related depreciation accumulations of fixed assets purchased by the EDD.

Grant/Cost Objective Code:

This two-digit code identifies the specific area of cost accumulation and groups all accounts which deal with that specific area. Certain grant/cost objective codes have been reserved to provide uniformity. An essential document in the structure of the accounting system is the Grant Roster. This document (Exhibit A) should contain a list of all grants received by the district during each fiscal year. The grant name should be as detailed as possible so that there is no doubt as to which contract a grant code applies. It is also suggested that the beginning and ending dates of the grant be included in the grant name. Once a grant has been given a number, it should retain that number from year to year. Once a grant has had its final audit and is permanently closed, the number can be reused in the next fiscal year after finalization. A grant code should never be used for two grants within a single fiscal year.

Cost Objective CodesPurpose

00	Not a cost objective. This is used for assets, liabilities, deferred income, fund balances, and revenues.
01-89	Used to identify a particular grant -- Grants should be assigned cost objective codes without regard to the fund.
90-99	Indirect Costs -- Pools and Allocations -- The last 10 numbers have been reserved so that these accounts will always be at the back of the general ledger. Grant Codes within this group should be changed from year to year so that adjustments to a prior year's indirect cost pool can be readily distinguished from the current year's pool.

Detailed Account Codes

The first digit of the four-digit account code designates the broad category of accounts in which the particular amount occurs. The first digit codes are as follows:

<u>Code</u>	<u>Broad Category</u>
1	Assets
3	Liabilities
4	Deferred Revenue
5	Fund Balances
7	Revenue and Resources Applied
8	Direct Costs
9	Indirect Costs - Pools and Allocations

The first digit code and the other three numbers constitute the detailed account code. A chart of accounts for each fund should be prepared by each district and should list the complete code for each category. The attached chart of detailed account codes can be used for any fund. The categories are broad enough to provide the district ample room to expand the charts where needed.

Accounts which begin with 1-7 will require a separate full account code for each account since grant/cost objective codes will not be used.

Generally speaking, accounts ending in 00 can be used as a control or summary account with the detailed accounts following. Only the even hundred (00) accounts will be shown on financial statements for accounts 1xxx through 5xxx.

Accounts which begin with 8 and some 9 accounts will have the same account title (i.e., 300-travel) for each grant. In other words, the same cost code can be used for the cost category, no matter which grant is involved.

ILLUSTRATION:

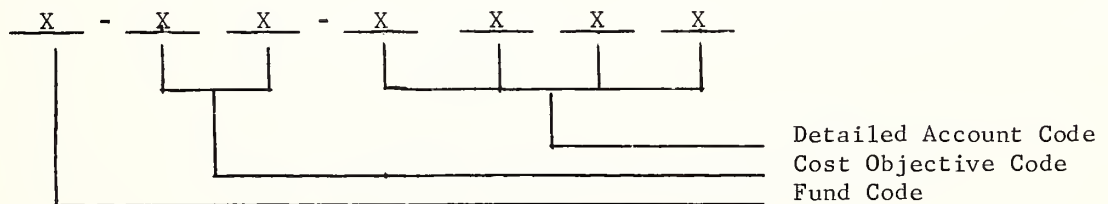


CHART OF ACCOUNTS

ASSETS

1000-1099 Cash

- 1001 - Petty Cash
- 1010 - Cash on Deposit - National Bank
- 1011 - Cash on Deposit - State Bank
- 1012 - Cash on Deposit - National Bank
- 1015 - Cash on Deposit - Payroll Account
- 1019 - Cash Transfer Account
- 1050 - Certificates of Deposit

1100-1599 - Accounts Receivable

- 1100 - Accounts Receivable - Local
- 1101 - Accounts Receivable - Local Dues
- 1102 - Allowance for Uncollectible Dues
- 1103 - Accounts Receivable - Local Other
- 1200 - Accounts Receivable - State Agencies
- 1300 - Accounts Receivable - Federal Agencies
- 1400 - Accounts Receivable - Delegate Agencies
- 1500 - Inter-fund Receivables

1600-1699 - Prepaid Items

- 1601 - Prepaid Items

1700-1799 - Fixed Assets - Local Funds

- 1710 - Land
- 1720 - Buildings
- 1730 - Furniture and Equipment
- 1740 - Automobiles and Trucks
- 1750 - Accumulated Depreciation
- 1770 - Accumulated Use Charge

1800-1899 Fixed Assets - Grant Funds

1810 - Land

1820 - Buildings

1830 - Furniture and Equipment

1840 - Automobiles and Trucks

1900-1999 Other Assets

1901 - Other Assets

LIABILITIES

3000-3099 Accounts Payable

3001 - Accounts Payable

3100-3199 Accrued Liabilities

3101 - Accrued Interest Payable

3103 - Accrued Payroll

3105 - Accrued Leave

3200-3299 Withholding

3201 - F.I.C.A. Payable

3202 - Federal Income Tax Withheld

3203 - State Income Tax Withheld

3204 - Group Insurance Withheld

3300 Notes Payable

3400 Inter-fund Payable

DEFERRED REVENUE

4000 - Unapplied Grant Funds - Federal

4100 - Unapplied Grant Funds - State

4200 - Unapplied Grant Funds - Special Local Projects

FUND BALANCES

5000 - Unapplied Fund Balances

5500 - Investment in Fixed Asset Fund - Local Funds (Depreciation Method)

5700 - Investment In Fixed Asset Fund - Grant Funds

REVENUES AND RESOURCES APPLIED

7000-7099 Federal Grant Revenue

7001 - Economic Development Administration Planning Grant No. _____

7002 - Department of Housing and Urban Development Planning Grant No. _____

7100-7199 State Grant Revenue

7101 - State Water Quality Grant No. _____

7200-7299 State Unrestricted Revenue

7201 - State Division of Planning Coordination Grant No. _____

7300-7399 Local Revenue

7301 - Local Dues

7302 - Special Project No. _____

7400-7499 In-kind Revenue

7401 - In-kind Rent

7402 - In-kind Travel

7600-7699 Local Revenue

7601 - EDA Grant No. _____

7602 - HUD Grant No. _____

7800-7850 Sale of Fixed Assets - Local Funds

7851-7899 Sale of Fixed Assets - Grant Funds

DIRECT COSTS

8100 - Personnel - Chargeable Salaries
8150 - Employee Benefits Allocation
8200 - Consultants and Contracted Services
8300 - Travel
8400 - Printing
8500 - Delegate Agency Costs
8600 - Buildings
8700 - Furniture and Equipment
8800 - Automobiles and Trucks
8900 - Other Direct Costs

COST ALLOCATION POOLS

9100-9299 Employee Benefits

9110 - Leave
9120 - Sick Pay
9130 - Holidays
9140 - Payroll Taxes and Administration Fees
9150 - Workmen's Compensation Insurance
9160 - Group Insurance
9170 - Retirement Benefits
9180 -
9190 -
9200 - Employee Benefits Applied

9300-9399 Salaries and Wages Clearing Accounts

9310 - Salaries and Wages
9320 - Salaries and Wages Applied

9500-9900 Indirect Cost Pool

- 9510 - Personnel - Indirect Labor Costs
- 9520 - Employee Benefits Allocated
- 9530 - Legal Services
- 9540 - Accounting Services
- 9550 - Auditing Services
- 9560 - Indirect Travel
- 9570 - Space Costs
- 9580 - Equipment Rent
- 9590 - Use Charges
- 9600 - Depreciation
- 9610 - Consumable Supplies
- 9620 - Insurance and Bonding
- 9630 - Indirect Printing
- 9640 - Telephone and Telegraph
- 9650 - Postage and Freight
- 9660 -
- 9800 - Indirect Cost Contributions
- 9900 - Indirect Cost Allocations

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

ASSETS

1001 - Petty Cash

This is a debit balance asset account used to account for an imprest cash fund which should be under the control of one particular person. It is used to make minor cash disbursements for which the issuance of a check is either impractical or impossible. Such disbursements would be postage due and purchase of minor supplies from other than regular sources. Each purchase should be supported by a petty cash voucher. Many types of these forms are commercially available. The amount of currency in the fund plus the total of the petty cash vouchers should always equal the control amount of the fund. At least monthly, the vouchers in the fund should be summarized and the fund replenished with a check to the petty cash custodian for the amount needed to bring the fund back to its authorized balance. The petty cash vouchers which have been submitted for reimbursement should be marked "paid" and filed with other paid bills. The expense accounts should be charged directly from the cash disbursements journal.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Establishment of the fund or increase in the fund	CD	1010	Decrease in amount of fund	CR	1010

1010 - Cash on Deposit - National Bank (Operating Fund)

This is a debit balance asset account which reflects the cash balance in the operating account.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Collection of receipts from local sources, state sources and federal sources which are used in the operations of the District	CR	1100-1599 or 7000 Series	Cash Disbursements	CD	1, 3, 8 or 9 Series of Accounts
Transfers between bank accounts within a fund	CR	1019			

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

1015 - Cash on Deposit - Payroll Account

This is a debit balance asset account which reflects the imprest cash balance in the account. For each payroll written, there should be a master check drawn on the operating account for the exact amount of the net payroll checks issued. Therefore, the balance in this account should remain constant. If the bank makes activity charges against this account, it should be periodically reimbursed and the bank charges charged to expense.

Debit	Posting Source	Contra Account	Credit	Posting Source	Contra Account
Transfers from operating account	PR	1019	Transfers to operating account	PR	1019

1019 - Cash Transfer Account

This is a zero balance clearing account used to accumulate offsetting debits and credits when cash is transferred between bank accounts within a fund. It should always come to zero.

Since each deposit must be entered in a cash receipts journal and each check entered in a cash disbursements journal, the transfer of cash between bank accounts within a fund will produce a debit and credit entry in the cash receipts journal of the receiving bank account and a debit and credit entry in the cash disbursements journal of the transferring bank account. This account is used to offset the credit entry produced by the debit in the cash receipts journal against the debit entry produced in the cash disbursements journal.

If this account should have a credit balance at the end of a month, then the receipt of a transfer from one account has been recorded without the recording of the issuance of the transfer. Conversely, if the account should have a debit balance, then the issuance of the transfer has been recorded without the receipt having been recorded.

This account should never be used to account for transfers between funds. Account 1500-5000 should be used for transfers between funds.

Debit	Posting Source	Contra Account	Credit	Posting Source	Contra Account
Transfer to Payroll	CD	1010	Transfer from Operating	PR	1015
Transfer to Operating from restricted bank account within operating fund	CD	1012	Receipt of cash from restricted bank account within operating fund	CR	1010

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

1050 - Certificates of Deposit

This is a debit balance asset account which shows the balance of temporary investments of cash.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Investment of Cash	CD	1010	Redemption of Investment	CR	1010
Increase in face amount due to interest added to face	GJ	730X			

1101 - Accounts Receivable - Local Dues

This is a debit balance asset account which represents amounts due from members for dues. It is a control account which balances to a detailed subsidiary ledger. At year's end, it should be reviewed for any dues which are not reasonably collectible. Dues should be recorded in this account when they are assessed by the district.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Recording of annual dues from members	GJ	7301	Collection of Receivables	CR	1010
			Write off of uncollectible dues (by Board Action)	GJ	1102

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

1102 - Allowance For Uncollectible Dues

This is a credit balance asset account which reflects offsets to accounts receivable which are not reasonably known to be collectible. At each year's end, balances in account 1101 should be reviewed, and any amounts which probably will not be collected within the next twelve months should have an allowance made against them. However, no dues should be written off without the consent of the Board of Directors.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Write off of uncollectible accounts (By Board Action)	GJ	1101	Allowance for doubtful accounts	GJ	7302
Removal of account from allowance because of collection of receivable	GJ	7302			

1103 - Accounts Receivable - Local Other

This is a debit balance asset account which represents amounts due from local sources for purposes other than dues. A subsidiary ledger would be needed only if volume made it necessary. Ordinarily, this account will be used only at the end of a grant or at the end of the district's fiscal year. Accounts 1104-1199 in the general ledger can be used for each agency or grant.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Amount due from a member for special project	GJ	730X	Collection of Receivable	CR	1010

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

1200 - Accounts Receivable - State Agencies

This is a debit balance asset account which represents amounts due from State funding agencies for contributions to projects.

Unrestricted General Support Grants by the State should not be reflected here, but should be taken directly into income when cash is received. These accounts are to be used primarily to account for earned revenue for projects.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Amount earned but not collected from State	GJ	7100	Collection of receivable	CR	1010

1300 - Accounts Receivable - Federal Agencies

This is a debit balance asset account that is used to reflect amounts due from agencies of the Federal government. This account will normally only be used at the end of a grant or at the end of the district's fiscal year. This can be used as a control account for a subsidiary ledger, or account numbers 1301-1399 can be individually used to record the receivable for each grant.

If an amount set up as a receivable should subsequently be determined to be excessive due to disallowance of costs charged to the grant, the balance should be written off to the district's unrestricted fund balance, account 5000, and be shown on the financial statements.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Amount due from Federal Agency	GJ	7000	Collection of accounts receivable	CR	1010

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

1400 - Accounts Receivable - Delegate Agencies

This is a debit balance asset account which reflects advances made to delegate agencies for performance of their duties. See the special problems section for a discussion of delegate agencies.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Amounts advanced	CR	1010	Funds used to perform contracts	GJ	8500
			Return of unused funds	CR	1010

1500 - Inter-fund Receivables

This is a debit balance asset account used to reflect temporary advances between funds. Transfers between funds of a permanent nature should be reflected in fund balance account.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Purchase of assets for fixed asset fund	CD	1010	Collection of receivable	CR	1010

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

1600 - Prepaid Items

This is a debit balance asset account used to account for significant pre-payments of expense which carry over from one accounting period to another. It should be adjusted at least annually to reflect the amortization of each item.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Cost of 3 year insurance policy on office contents	CD	1010	Amortization of current fiscal period's expense	GJ	8000 or 9000 Series

1700 - Fixed Assets

This is a debit balance asset account used to account for the cost of assets purchased by the district. The amount shown as a balance should be supportable by an analysis which shows the cost of each asset, the date acquired, and the source of the funds from which it was purchased. Assets which are subsequently disposed of through trade-in, sales, loss, or other should be removed from this account.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Cost of Fixed Assets	GJ	5500	Removal of cost of asset due to disposition	GJ	5500

1750 - Accumulated Depreciation

This is a credit balance auxiliary account used to accumulate the depreciation charges made against assets which were purchased from local funds. Assets purchased with local funds can be depreciated in accordance with any method acceptable to the Internal Revenue Service.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Disposition of Assets	GJ	1700	Depreciation Allowance	GJ	9600

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

3001 - Accounts Payable

This is a credit balance liability account used to reflect major unpaid obligations which do not fit into the other liability classifications. Since most districts pay bills currently, it is not anticipated that this account will be used except to record significant unpaid items which exist at the year's end. It can also be used to accrue unpaid direct expenses of a grant which ends within a year. Amounts included in accounts payable should be definite amounts supportable by documents and not estimated costs.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Payment of obligations	CD	1010	Liabilities unpaid at year's end or other	GJ	1000 or 8000 Series

3101 - Accrued Interest Payable

This is a credit balance liability account used to reflect unpaid interest charges on borrowings.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Payment of interest	CD	1010	Amount of interest due at end of accounting period	GJ	8900

3103 - Accrued Payroll

This is a credit balance liability account used to reflect employees' gross wages earned but not paid at the end of each month.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Payment of wages accrued	CD	1010	Unpaid wages	GJ	9310

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

3105 - Accrued Leave

This is a credit balance liability account reflecting the district's obligation for annual leave earned but not taken. The amount should be supportable by a written personnel policy which has been approved by the governing board and by detailed leave records maintained for each employee. The accrual should be adjusted annually and the adjustment made through account # 9100 - Leave. The balance should agree with the accrued leave schedule prepared annually by the district. See Exhibit H

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Adjustment to year's end schedule of unused leave (if less than previous year's accrual)	GJ	9110	Amount of unused leave earned	GJ	9110

3201 - F.I.C.A. Payable

This is a credit balance liability account which reflects the district's obligation for both the employer's and employees' share of Social Security tax.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Payment of Tax	CD	1010	Employees' share withheld	CD	9310
			Employer's share accrued	GJ	9140

3202 - Federal Income Tax Withheld

This is a credit balance liability account which reflects the amount of Federal Income Tax withheld but not transmitted to the government.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Payment of Tax	CD	1010	Employees' tax withheld	CD	9310

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

3203 - State Income Tax Withheld

This is a credit balance liability account which reflects the amount of State Income Tax withheld but not transmitted to the government.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Payment of tax	CD	1010	Employees' tax withheld	CD	9310

3204 - Group Insurance Withheld

This is a credit balance liability account which reflects the employees' unremitted portion of a group insurance plan. The district's portion of the premiums should be charged to account 9160.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Remittance of premiums	CD	1010	Collection from employees	CD	9310
			Amount of District's contribution	GJ	9160

3300 - Notes Payable

This is a credit balance liability account which reflects amounts due for outside borrowings. Such borrowings should be in conformity with written board policy or be approved by the governing board in a legal meeting.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Payments of principal	CD	1010	Receipt of loan proceeds	CR	1010

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

3400 - Interfund Payable

This is a credit balance liability account which reflects amounts due to other funds for temporary advances. It is the offsetting account to account 1500 in the fund which made the advance.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Payment of obligation	CD	1010	Advance by another fund	GJ	Any account

4000 - Unapplied Grant Funds - Federal

This is a credit balance liability account which reflects the excess of Federal grant funds received over the Federal portion of costs incurred for that grant. For example, if a 3/4 matching grant had advanced \$50,000 towards a project which had total accumulated costs of \$60,000, the Federal portion of that grant would be \$45,000 and \$5,000 would be unapplied grant funds. This account should be used at the year's end to set up any such unapplied balances. At the end of the grant, the additional Federal portion of that grant which is earned should be transferred to account 7000 - Federal Grant Revenue. Any remaining balance would be due to the funding agency. Account 4000 can be used as a control account, or accounts 4001-4099 can be used to reflect balances of individual grants.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Additional amount earned under grant award subsequent to year end closing	GJ	7000	Excess of amount received over amount earned	GJ	7000
Unearned receipts returned to Federal grantor	CD	1010			

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

4100 - Unapplied Grant Funds - State

This account would work exactly like the 4000 series of accounts, except that it would apply to State Grants.

4200 - Unapplied Grant Funds - Special Local Projects

This account would be used as 4000 and 4100 series, except it would contain grants from local sources for special projects.

5000 - Unapplied Fund Balance

This is a credit balance equity account which reflects the amount of unexpended local resources. Each year the revenues and expenditures are closed to this account.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Prior year's expenditures disallowed from grants	GJ	4000, 4100, 4200	Closing of Revenue	GJ	Entire Series 7xxx
Purchase of Fixed Assets from Local Funds	CD	1010			
Closing of Expenditures	GJ	8xxx 9xxx Series			

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

5500 - Investment in Fixed Asset Fund - Local Funds (Depreciation Method)

This is a credit balance equity account which reflects the undepreciated cost of fixed assets purchased with local funds.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Close out depreciation expense at year end	GJ	9600	Amount of local funds used to purchase fixed assets	GJ	1700
Undepreciated cost of Fixed Asset disposed	GJ	1700			

5700 - Investment in Fixed Asset Fund - Grant Funds

This is a credit balance equity account which reflects the cost of fixed assets acquired by the District which were purchased with grant funds. The amounts which will appear in this account should contain both the grantor and grantee portion of the cost. If the asset is subsequently disposed the original cost of the asset should be removed from the books. A separate grant code should preface each 5700 account so that the exact source of funds can be identified.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Disposition of Asset	GJ	1800	Purchase of Asset	GJ	1800

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

REVENUES7000-7099 - Federal Grant Revenue

These are credit balance revenue accounts which reflect the amount of revenue received from Federal sources for each grant. Each grant should be given a separate account number beginning with 7001. During the year, this account will reflect the amount of cash received from the source and at year's end (or at the end of the grant) will be adjusted to reflect the amount of Federal Revenue earned. If Federal Revenue earned exceeds revenue received, the adjustment will be through accounts receivable (Accounts 1300); if revenue received exceeds revenue earned, the adjustment will be through unapplied grant funds (Accounts 4000).

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Excess of receipts over revenue earned	GJ	4000	Receipts of grant funds	CR	1010
Closing entry	GJ	5000	Accrual of additional revenue	GJ	1300, 4000

7100-7199 - State Grant Revenue

These are credit balance revenue accounts which are handled exactly as the 7000-7099 accounts, except that they reflect revenue from State grants for particular projects.

7200-7299 - State Unrestricted Revenue

These are credit balance revenue accounts which are used to reflect the amount of State revenues received to support the overall district program. These revenues become local in nature when received and can be used to match Federal grants.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Closing entry	GJ	5000	Receipt of State funds	GJ	1010

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

7300-7399 - Local Revenue

These are credit balance revenue accounts which reflect the amount of revenue from local sources. A separate account should be set up for each category of local revenue. Revenue for local dues can be accrued when the district has reasonable assurance of collection.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Closing entry	GJ	5000	Assessment of local dues	GJ	1100
			Receipt of funds for special project	CR	1010

DIRECT COSTS

8100 - Personnel - Chargeable Salaries

This is a debit balance expense account reflecting the cost of direct time which has been charged to a particular cost objective.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Chargeable salaries	SE	9320	Closing entry	GJ	5000

8150 - Employee Benefits Allocation

This is a debit balance expense account reflecting the amount of employee benefits which have been allocated to this cost objective based on the rate developed at the beginning of the year. At year's end, this account will be adjusted to reflect the actual rate.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Allocation of employee benefits	SE	9200	Adjustment to year's end actual rate	GJ	9200
Adjustment to year's end actual rate	GJ	9200	Closing entry	GJ	5000

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

8200-8999 - Direct Costs (Other than personnel)

These are debit balance expense accounts which reflect direct costs of projects in accordance with the district's policy for direct and indirect costs.

The account titles shown on the chart of accounts are self-explanatory. Accounts 8200-8499 and 8700 are the most common direct costs found in districts. Accounts 8900-8999 are for direct costs which might be peculiar to a particular grant, such as HUD's inspection fee.

Accounts 8600, 8700, 8800 are for purchases of fixed assets from grant funds.

Delegate Agency Costs (Accounts 8500-8599) are those costs incurred when a district, in effect, subcontracts a grant to another organization. It is not unusual for a district to be the applicant for a grant that will be wholly performed by others. However, it must be emphasized that since the district is the applicant, it is primarily responsible for the costs incurred being proper and for seeing that all reporting requirements are met. The distinction between a delegate agency grant and a custodial grant is that there will be personnel costs and perhaps overhead costs charged to a delegate agency grant, whereas a custodial grant normally does not have these costs. If the delegate agency's salary costs were shown in the records of the district as salary costs, the proration of the district's indirect costs on the basis of salary costs would become confusing. Therefore, the district should show delegate agency costs in lump sum and keep a detailed record of the budget off line from the accounting system.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Direct expenses	CD or GJ	1010 or Other appropriate account	Closing entry	GJ	5000
Unpaid significant items at year's end	GJ	3001			

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

EMPLOYEE BENEFITS9110 - Leave

This is a debit balance expense account which reflects the cost of leave taken and accrued during the year.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Cost of leave taken during year	SE	9320	Adjustment of accrued leave if less than at year's end last year	GJ	3105
Adjustment of accrued leave if more than at year's end last year	GJ	3105	Closing entry	GJ	5000

9120 - Sick Pay

This is a debit balance expense account which reflects the cost of sick leave taken during the year. Accrued sick leave should not be charged as a cost unless it is the district's policy to pay for unused sick leave.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Cost of sick leave taken	SE	9320	Closing entry	GJ	5000

9130 - Holidays

This is a debit balance expense account which reflects the cost of paid holidays.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Cost of paid holidays	SE	9320	Closing entry	GJ	5000

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

9140 - Payroll Taxes and Administration Fees

This is a debit balance expense account which reflects the district's share of employment taxes and the administration fees charged by State agencies for handling F.I.C.A. taxes.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Accrual of district's share of payroll taxes	SE	3201	Closing entry	GJ	5000
Administration fees	CD	1010			

9150 - Workmen's Compensation Insurance

This is a debit balance expense account which reflects the district's cost of Workmen's Compensation Insurance.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Workmen's Compensation Insurance Premiums	CD	1010	Closing entry	GJ	5000

9160 - Group Insurance

This is a debit balance expense account which reflects the district's share of any group insurance program.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
District's share of group insurance	CD	1010	Dividends on policies	CR	1010
			Closing entry	GJ	5000

DESCRIPTION OF GENERAL LEDGER ACCOUNTS

9170 - Retirement Benefits

This is a debit balance expense account which reflects the district's out-of-pocket costs for a pension plan.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Pension plan contributions	CD	1010	Closing entry	GJ	5000

9200 - Employee Benefits Applied

This is a credit balance allocation account which reflects the total amount of Employee Benefits allocated to grants, based on the rate developed in the cost allocation plan. At the end of the year, this account is adjusted to equal the total of Accounts 9100 - 9299 and the difference prorated in accordance with chargeable salaries.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Adjustment to equal final negotiated rate	GJ	8150	Allocations based on preliminary rate	SE	8150
Closing entry	GJ	5000			

9310 - Salaries and Wages

This is a debit balance control account which is used to accumulate the gross amount of salaries and wages paid and accrued. It is used only to offset the 9320 account.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Gross salaries	CD	1010			

9320 - Salaries and Wages Applied

This is a credit balance control account which accumulates the amount of wages which have been allocated to cost objectives. It should always equal account 9310.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
			Allocation of salaries and wages	GJ	8100, 9110, 9120, 9130, 9510

9500-9900 - Indirect Costs

These are debit balance expense accounts which accumulate the costs which have been assigned to the indirect cost pool. These costs should be in accordance with OMB Circular A-87.

Debits	Posting Source	Contra Account	Credits	Posting Source	Contra Account
Indirect costs	CD, GJ	1010 or Other Appro- priate Account	Closing entry	GJ	5000

TRANSACTIONS

Since all accounting transactions must have a debit and a credit to enable a double entry set of books to be kept, the journal entry provides a good graphic method to illustrate which accounts are affected by a transaction and in what way they are affected. Actually, all journals are really only tools to recap a series of journal entries into a few entries. The series of journal entries below illustrates most transactions which will take place in an EDD.

The first series will illustrate normal or month-to-month transactions.

	(1)	Debit	Credit
1-00-1101 Accounts Receivable - Local Dues		12,000	
1-00-7301 Revenue - Local Dues			12,000

(To record assessment of dues)

	(2)		
1-00-1010 Cash on Deposit - National Bank		27,000	
1-00-1101 Accounts Receivable - Local Dues			3,000
1-00-7010 Revenue - EDA			7,000
1-00-7201 Revenue - State Planning Grant			17,000

(To record cash receipts)

	(3)		
1-00-1001 Petty Cash		150	
1-00-1010 Cash on Deposit - National Bank			150

(To record establishment of petty cash fund)

	(4)		
1-00-1019 Cash Transfer		1,000	
1-00-1010 Cash on Deposit - National Bank			1,000

(To record transfer of funds to State Bank)

	(5)		
1-00-1011 Cash on Deposit - State Bank		1,000	
1-00-1019 Cash Transfer			1,000

(To record receipt of transfer from National Bank)

(6)

1-00-9310	Salaries and Wages	10,000	
1-00-3201	F.I.C.A. Payable		520
1-00-3202	Federal Income Tax Withheld		1,000
1-00-3204	Group Insurance Withheld		480
1-00-1010	Cash on Deposit - National Bank		8,000

(To record salaries paid and master check
drawn to payroll account)

(7)

1-91-9140	Payroll Taxes	520	
1-00-3201	F.I.C.A. Payable		520

(To accrue payroll taxes payable)

(8)

1-01-8100	Personnel - EDA	5,000	
1-02-8100	Personnel - HUD	2,000	
1-04-8100	Personnel - HEW	1,000	
1-92-9510	Personnel - INDIRECT	1,000	
1-91-9110	Leave Taken	350	
1-91-9120	Sick Pay Taken	200	
1-91-9130	Holidays	450	
1-00-9320	Salaries and Wages Applied		10,000

(To distribute wages in accordance with time sheets)

(9)

1-01-8150	Employee Benefits Allocated - EDA	500	
1-02-8150	Employee Benefits Allocated - HUD	200	
1-04-8150	Employee Benefits Allocated - HEW	100	
1-92-9520	Employee Benefits Allocated - INDIRECT	100	
1-91-9200	Employee Benefits Applied		900

(To allocate employee benefits according
to 10% rate on chargeable salaries)

(10)

1-01-9900	Indirect cost allocations - EDA	2,750	
1-02-9900	Indirect cost allocations - HUD	1,100	
1-04-9900	Indirect cost allocations - HEW	550	
1-92-9900	Indirect Cost Allocations		4,400

(To allocate indirect costs based on 50% indirect rate)

(11)

1-01-8200	Consultants - EDA	3,000	
1-01-8300	Travel - EDA	750	
1-02-8300	Travel - HUD	300	
1-04-8400	Printing - HEW	600	
1-92-9530	Legal	125	
1-92-9560	Travel - Indirect	320	
1-92-9610	Consumable Supplies	650	
1-00-3201	F.I.C.A. Payable	1,040	
1-00-3202	Federal Income Tax Withheld	1,000	
1-00-1010	Cash on Deposit - National Bank		7,785

(To record the payment of bills and expenses)

(12)

1-00-1400	Advances - Delegate Agency	10,000	
1-00-1010	Cash on Deposit - National Bank		10,000

(To record advances to delegate agency
for contract)

(13)

1-07-8500	Delegate Agency Costs	3,800	
1-00-1400	Advances Delegate Agency		3,800

(To record expenses incurred by
delegate agency)

(14)

1-09-8300	Travel	300	
1-00-7402	In-Kind Travel		300

(To record receipt of in-kind voucher for
donated travel)

(15)

1-00-5000	Unapplied Fund Balance	1,000	
3-00-1700	Fixed Asset - Local Funds	1,000	
1-00-1010	Cash on Deposit - National Bank		1,000
3-00-5500	Investment in Fixed Asset Funds - Local Funds		1,000

(To record purchase of fixed asset from local fund.)

(16)

1-01-8700	Equipment and Furniture - EDA	2,500	
3-00-1800	Fixed Assets - Grant Funds	2,500	
1-00-1010	Cash on Deposit - National Bank		2,500
3-00-5700	Investment in Fixed Asset Fund - Grant Funds		2,500

(To record purchase of fixed assets from EDA Grant Funds.)

The second series will illustrate the year end entries which will be necessary after the normal month-to-month entries have been made:

(1)

1-01-8200	Consultants - EDA	1,500	
1-04-8200	Consultants - HEW	2,000	
1-92-9610	Consumable Supplies	200	
1-92-9640	Telephone and Telegraph	400	
1-00-3100	Accounts Payable		4,100
	(To record unpaid obligations at year end)		

(2)

1-91-9110	Leave	4,000	
1-00-3105	Accrued Leave		4,000
	To adjust earned but untaken annual leave to amount on accrued leave schedule:		
	Accrued leave on books	6,000	
	Accrued leave per schedule	<u>10,000</u>	
	Adjustment	4,000	

(3)

1-91-9200	Employee Benefits Applied	2,000	
1-01-8150	Employee Benefits Allocation - EDA		500
1-02-8150	Employee Benefits Allocation - HUD		750
1-04-8150	Employee Benefits Allocation - HEW		250
1-92-9520	Employee Benefits Allocation - Indirect		500
	(To reduce employee benefit allocations to actual costs incurred)		
	Amount of Employee Benefits allocated at 10%	24,000	
	Amount of Employee Benefits incurred	<u>22,000</u>	
	Adjustment	<u>2,000</u>	

(4)

1-01-9900	Indirect Cost Allocations - EDA	400	
1-02-9900	Indirect Cost Allocations - HUD	600	
1-04-9900	Indirect Cost Allocations - HEW	300	
1-92-9900	Indirect Cost Allocations		1,300
	(To increase indirect cost allocations to actual costs incurred)		
	Amount of Indirect Costs Allocated at 50%	64,000	
	Amount of Indirect Costs Incurred	<u>65,300</u>	
	Adjustment	<u>1,300</u>	

(5)

1-00-1300	Accounts Receivable Federal Agencies - HUD	5,000	
1-00-7002	Federal Grant Revenue - HUD		5,000
	(To record excess of Grant Revenues earned over actual amounts received)		

(6)

1-00-7001	Federal Grant Revenue - EDA	2,000	
1-00-4000	Unapplied Grant Funds - EDA		2,000
	(To remove from current revenues the excess of funds received over funds earned)		

(7)

1-00-7201	State Unrestricted Revenue	10,000	
1-00-7301	Local Dues	12,000	
1-00-7401	In-Kind Rent	600	
1-00-7402	In-Kind Travel	400	
1-00-7601	EDA Grant #1		6,000
1-00-7602	HUD Grant #2		9,000
1-00-7603	HEW Grant #4		4,000
1-00-5000	Unapplied Fund Balance		4,000
	(To show the amount of local revenue matched against specific grants for the fiscal year, balance of revenue going to unapplied fund balance)		

(8)

1-00-7601	EDA Grant #1	6,000	
1-00-7001	EDA Federal Revenue	18,000	
1-00-5000	Unapplied Fund Balance		24,000
	(To close out revenues for EDA Grant # _____ - Repeat for each Grant)		

(9)

1-00-5000	Unapplied Fund Balance	24,000	
1-01-8100	EDA - Chargeable Salaries		12,000
1-01-8150	EDA - Employee Benefit Allocation		4,000
1-01-8200	EDA - Consultant		6,000
1-01-8300	EDA - Travel		2,000
	(To close out expenditures for EDA Grant # _____ - Repeat for each Grant)		

(10)

1-00-5000	Unapplied Fund Balance	4,000	
1-93-8900	Non-Matching Costs		4,000
	(To close out costs not matched against grants)		

A DEVELOPMENT DISTRICT

GRANT ROSTER

19__

<u>Grant/Cost Objective Name</u>	<u>Begins</u>	<u>Ends</u>	<u>Cost Objective Code</u>
Not a Cost Objective			00
Economic Development Administration Planning Grant No. _____	3/1/71	2/28/72	01
Department of Housing and Urban Development Planning Grant No. _____	1/1/71	12/31/71	02
Economic Development Administration Public Works Project No. _____	7/1/69	8/31/73	03
Employee Benefits Pool	1/1/71	12/31/71	91
Indirect Costs Pool	1/1/71	12/31/71	92
Non-Matching	1/1/71	12/31/71	93
 Employee Benefits Pool	 1/1/70	 12/31/70	 95
Indirect Costs Pool	1/1/70	12/31/70	96
Non-Matching	1/1/70	12/31/70	97

PERSONNEL COSTS WORKSHEET

Fiscal Year Ended _____

Position	Basis of Pay	Daily Rate	This Year's Salary Col. 1	Leave Earned (4%) Col. 2	Sick Leave Taken (3%) Col. 3	Holidays (3%) Col. 4	Total Released Time Col. 5	Chargeable Col. 6	FICA Col. 7	Group Col. 8	Workmen's Col. 9	Pension Plan Contributions Col. 10	Total Personnel Costs Col. 11
Executive Director	\$18 500	\$71	\$ 18 500	\$ 740	\$ 555	\$ 555	\$ 1 850	\$ 16 650	\$ 407	\$ 250	\$ 100	\$ 555	\$ 19 812
Director of Planning	16 000	62	16 000	640	480	480	1 600	14 400	407	250	100	480	17 237
Water Program Manager	9 600 Ann.	37	4 800	192	144	144	480	4 320	250	125	48	144	5 367
PSC Project Coordinator	10 000 Ann.	39	5 000	200	150	150	500	4 500	157	-0-	50	150	5 357
Part Time Secretary	\$1.80 Hr.	15	800	-0-	-0-	30	30	770	42	-0-	8	-0-	850
Totals			\$116 675	\$ 4 525	\$ 3 525	\$ 3 625	\$ 11 675	\$105 000	\$ 4 150	\$ 2 600	\$ 1 100	\$ 3 525	\$128 050

Total Released Time (Col. 5)-Leave earned plus sick leave taken plus holidays (Col. 2 plus Col. 3 plus Col. 4)

Chargeable Salary (Col. 6)-This year's salary less total released time (Col. 1 minus Col. 5)

Total Personnel Costs (Col. 11)-This year's salary plus other employee benefits (Col. 1 plus Col. 7, Col. 8, Col. 9, and Col. 10)

Employee Benefits-- Released time plus other employee benefits (Col. 5 plus Col. 7, Col. 8, Col. 9, and Col. 10)

ALLOCATION OF PERSONNEL PLAN

For Year Ended _____

Position	Total Chargeable Salary	Indirect Chargeable	Direct Chargeable			Etc
			---8100 EDA	---8100 HUD	---8100 PSC	
Executive Director	\$ 16 650	20%	50%	30%		
		----- \$ 3 330	----- \$ 8 325	----- \$ 4 995	-----	-----
Director of Planning	\$ 14 400	10%	10%	55%		
		----- \$ 1 440	----- \$ 1 440	----- \$ 7 920	-----	-----
Receptionist/ Typist	\$ 4 344	100%				
		----- \$ 4 344	-----	-----	-----	-----
Totals	\$105 000	\$ 22 235	\$ 14 200	\$ 29 400	\$ 5 400	Etc

A DEVELOPMENT DISTRICT

STATEMENT OF EMPLOYEE BENEFITS

Exhibit D

19__

Leave Earned	\$ 4 525
Sick Leave	3 525
Holidays	3 625
F.I.C.A.	4 150
Group Insurance	2 600
Workmen's Compensation Insurance	1 100
Pension Plan Contributions	<u>3 525</u>
<u>TOTAL EMPLOYEE BENEFITS</u>	<u>\$ 23 050</u>

Allocation Base:

Total Salaries	\$116 675
Less Released Time	<u>11 675</u>
<u>CHARGEABLE SALARIES</u>	<u>\$105 000</u>
<u>EMPLOYEE BENEFIT RATE</u> (\$23,050 ÷ \$105,000)	<u>21.9%</u>

A DEVELOPMENT DISTRICT
STATEMENT OF INDIRECT COSTS

Exhibit E

19__

Salaries	\$22 235	
Employee Benefits (21.9%)	<u>4 869</u>	\$ 27 104
Accounting		2 550
Legal		1 800
Office Space		6 400
Furniture and Equipment Rent		8 000
Telephone and Communications		5 500
Consumable Supplies		4 000
Postage		2 000
Travel		4 500
Printing and Publications		1 000
Insurance and Bonding		<u>1 179</u>
<u>TOTAL INDIRECT COSTS</u>		<u>\$ 64 033</u>
Indirect Cost Basis:		
Direct Chargeable Salaries (\$105,000 minus \$22,235)		\$ 82 765
Employee Benefits (21.9%)		<u>18 181</u>
<u>DIRECT PERSONNEL COSTS</u>		<u>\$100 946</u>
<u>INDIRECT COST RATE</u> ($\$64,033 \div \$100,946$)		<u>63.4%</u>

A DEVELOPMENT DISTRICT

ANNUAL OPERATING BUDGET

EXHIBIT F

19__

	<u>Total</u>	<u>EDA</u>	<u>HUD</u>	<u>PSC</u>	<u>Non-Matching</u>
Direct Expenses:					
Chargeable Salaries	\$ 82 765	\$14 200	\$ 29 400	\$ 5 400	\$ -0-
Employee Benefits	<u>18 181</u>	<u>3 110</u>	<u>6 439</u>	<u>1 182</u>	<u>-0-</u>
Total Direct Personnel Costs	\$100 946	\$17 310	\$ 35 839	\$ 6 582	\$ -0-
Consultants and Contracted Services	150 000	15 000	65 000	17 000	-0-
Travel	30 000	4 000	15 000	2 000	-0-
Printing	10 000	1 000	3 000	500	-0-
Other Direct Expenses	<u>5 000</u>	<u>1 000</u>	<u>1 000</u>	<u>500</u>	<u>2 000</u>
Total Direct Indirect Expenses	\$295 946	\$38 310	\$119 839	\$26 582	\$2 000
	<u>64 033</u>	<u>10 975</u>	<u>22 722</u>	<u>4 173</u>	<u>-0-</u>
Total Costs	<u>\$359 979</u>	<u>\$49 285</u>	<u>\$142 561</u>	<u>\$30 755</u>	<u>\$2 000</u>
Source of Funds:					
Local Matching	\$ 68 000	\$17 250	\$ 35 640	\$ -0-	\$2 000
State Grant Revenue	44 000	-0-	-0-	-0-	-0-
Federal Grant Revenue	<u>247 979</u>	<u>32 035</u>	<u>106 921</u>	<u>30 755</u>	<u>-0-</u>
	<u>\$359 797</u>	<u>\$49 285</u>	<u>\$142 561</u>	<u>\$30 755</u>	<u>\$2 000</u>

A DEVELOPMENT DISTRICT

PROJECTED LOCAL RESOURCES AND REQUIREMENTS

EXHIBIT G

19__

Resources:

Unapplied Fund Balance Operating Fund 1/1/____ \$ 23 000

Revenues:

Local Dues	\$ 29 000
Local Contributions to Special Projects	15 000
In-kind Contribution	11 000
Unrestricted State Funds	<u>29 000</u>

Total Revenue 84 000

Total Resources \$107 000

Requirements:

Annual Operating Budget	\$ 68 000
Transfer to Fixed Asset Fund	<u>15 000</u>

Total Requirements 83 000

PROJECTED UNAPPLIED FUND BALANCE OPERATING

<u>FUND 12/31/____</u>	<u>\$ 24 000</u>
------------------------	------------------

ACCRUED LEAVE SCHEDULE

December 31, 19

75

CASH RECEIPTS JOURNAL

Month of _____, 19____

Bank #

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Month of _____, 19__

Page _____

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EXHIBIT K

_____, 19____

Page _____

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PAYROLL REGISTER

Payroll Period _____, 19__ to, 19__

Approved

Page

[illegible]

STANDARD ENTRIES JOURNAL

Page

[illegible]

A DEVELOPMENT DISTRICT
MONTHLY TIME AND ACTIVITY REPORT

MONTH

[illegible]

Summarize by Funding Source or Activity

Activity	Cost Objective Code												HOLIDAY	VACA-TION	SICK LEAVE	TOTAL HOURS
INDIRECT																
EDA																
HUD																
SOCPH																
CJC PLANNING																
HEW																
EDA/PSC																
RELEASED TIME																
Total Hours																
Total Hours (Less Comp. Time Taken)																
Percent of Total Time																100%
Salary Cost Proration																

Signature: _____

Approved: _____

PAYROLL DISTRIBUTION SHEET

Month of _____ 19__

Name and Position	Month's				Released Time		Indirect		Direct Salary Costs			
	Gross Salary #91-9320	Leave #91-9110	Sick Pay #91-9120	Holidays #91-9130			#92-9510		#10-8100	#11-8100	#12-8100	#13-18100 #14-8100
John A. Jones	100%	5.1%	2.4%	4.0%			25.0%		42.5%			21.0%
Executive Director	\$1,541.67	\$ 78.62	\$ 37.00	\$ 61.67			\$ 385.42		\$ 655.21			\$ 323.75
John A. Jones, Jr.	100%			4.0%			7.5%			65.0%	18.5%	5.0%
Director of Planning												
Jennifer Jones	100%			4.0%			96.0%					
Receptionist/Typist	500.00			16.00			384.00					
Totals (Money Only)	\$9,700.00	\$ 150.00	\$ 63.00	\$ 388.00			\$1,850.00		\$1,450.00	\$1,163.00	\$1,120.00	\$2,974.00 \$ 542.00

The percent and dollars shown on this Exhibit are
obtained from the last two lines of Side 2 Exhibit N-2

A DEVELOPMENT DISTRICT

IN-KIND CONTRIBUTION VOUCHER FOR PERSONAL SERVICES

(DATE PREPARED)

Donor: _____
(Name of Governmental Unit)Address: _____

Time Period Covered by Report _____

NAME OF EMPLOYEE	HOURS OR DAYS *	HOURLY OR DAILY RATE *	AMOUNT DONATED
Total			

I, _____, Chief Financial Officer for the _____
City, County, or District
_____, hereby certify (1) that the above named employees have been paid as
specified herein, (2) that the hourly rate does not exceed the employer's actual cost, and
(3) that supportive payroll records are available for audit.

(Signature)

(Date)

The above services were performed in connection with _____
grant/project and are an eligible cost to that project.

(Project Director)

(Date)

*Please circle method used

FUND	ACCOUNT DISTRIBUTION		
	COST OBJECTIVE	ACCOUNT	AMOUNT
TOTAL			

INDIRECT COSTS REPORT

AS OF		DATE PREPARED		FISCAL YEAR				
A DEVELOPMENT DISTRICT								
CURRENT PERIOD			YEAR TO DATE					
ACTUAL	BUDGET	OVER (UNDER) BUDGET	DESCRIPTION	ACTUAL	BUDGET	OVER (UNDER) BUDGET	TOTAL BUDGET	UN- EXPENDED BALANCE
			INDIRECT SALARIES					
			EMPLOYEE BENEFITS ALLOCATIONS					
			TOTAL PERSONNEL COSTS					
			ACCOUNTING					
			LEGAL					
			OFFICE SPACE					
			EQUIPMENT RENT					
			TELE. & COMM.					
			CONSUM. SUPPLIES					
			POSTAGE					
			TRAVEL					
			PRINT. & PUB.					
			INSR. & BONDING					
			TOTAL INDIRECT (A)					
			Basis:					
			Direct Salaries					
			Employee Benefits Allocations					
			Total Direct Personnel (B)					
			Indirect Rate (A ÷ B)					

CURRENT PERIOD88

BALANCE SHEET

December 31, 19

ASSETS

Cash on Hand and on Deposit		\$ 60 951
Accounts Receivable:		
Local	\$ 7 643	
State Water Quality Board	1 258	
Department of Housing and Urban Development	28 942	
Department of Health Education and Welfare	<u>1 834</u>	
Total Accounts Receivable		<u>39 677</u>
<u>TOTAL ASSETS</u>		<u>\$100 628</u>

LIABILITIES AND FUND BALANCES

Accounts Payable		\$ 36 952
Accrued Leave		3 536
Excess of Funds Received Over Expenditures:		
Public Service Careers	\$24 911	
Farmers Home Administration	<u>53</u>	<u>24 964</u>
<u>TOTAL LIABILITIES</u>		65 452
Unapplied Fund Balance	<u>\$35 176</u>	
Total Fund Balances		<u>35 176</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>		<u>\$100 628</u>

STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

19__

Revenues:

Local:

Dues	\$ 11 063
Law Equipment Matching	7 613
Special Contribution	5 790
Other Local Revenue	84
In-kind Contributions	<u>16 986</u>

Total Local Revenue	\$ 41 536
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State:

Criminal Justice Council	\$55 623
State Planning Grant	21 340
Water Quality Board	74 583
In-kind Contributions	<u>26 700</u>

Total State Revenue	178 246
---------------------	---------

Federal:

Department of Housing and Urban Development	\$ 89 356
Economic Development Administration	32 150
Department of Health, Education and Welfare	18 259
Public Service Careers	14 089
Farmers Home Administration	<u>27 446</u>

Total Federal Revenue	<u>181 300</u>
-----------------------	----------------

Total Revenue	<u>\$401 082</u>
---------------	------------------

Expenditures:

Expenditures for grants (Exhibit W)	\$388 609
Non-matching expenditures	<u>3 423</u>

Total Expenditures	<u>\$392 032</u>
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Excess of Revenue over Expenditures	\$ 9 050
-------------------------------------	----------

Unapplied Fund Balance, January 1, 19__	<u>26 126</u>
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UNAPPLIED FUND BALANCE, DECEMBER 31, 19__	<u>\$ 35 176</u>
---	------------------

19__

STATEMENT OF INDIRECT COSTS

Personnel	\$ 23 541
Employee Benefits	<u>3 581</u>
	\$ 27 122
Accounting	2 554
Legal	1 780
Office Space	6 393
Furniture and Equipment Rent	8 316
Telephone and Communications	5 937
Consumable Supplies	4 609
Postage	1 816
Travel	3 299
Printing and Publications	876
Insurance and Bonding	<u>1 171</u>
<u>TOTAL INDIRECT COSTS</u>	<u>\$ 63 873</u>

STATEMENT OF EMPLOYEE BENEFITS

Employee Benefits	
Social Security	\$ 4 365
Hospitalization Insurance	2 494
Sick Leave	774
Holidays	2 376
Vacations	<u>6 812</u>
<u>TOTAL EMPLOYEE BENEFITS</u>	<u>\$ 16 821</u>

EXHIBIT X

STATEMENT OF EXPENDITURES BY FUNDING SOURCE

19

	HUD	EDA	HEW	PSC	FHA	WOB	ACADEMY	PLANNING	CJC ACTION GRANTS	TOTAL
Direct Salaries	\$ 36 861	\$ 14 406	\$ 12 041	\$ 6 124	\$ 2 659	\$ 3 643	\$ 2 306	\$ 9 011	\$ -0-	\$ 87 054
Employee Benefits	5 606	2 191	1 831	931	404	554	350	1 370	-0-	13 240
	\$ 42 467	\$ 16 597	\$ 13 872	\$ 7 055	\$ 3 063	\$ 4 197	\$ 2 657	\$ 10 381	\$ -0-	\$100 294
Indirect Costs	27 046	10 570	8 834	4 493	1 951	2 672	1 692	6 611		63 873
Consultants and Contracted Services	40 825	12 200		500	19 500	67 247	6 400		22 750	169 422
Travel	2 590	2 644	1 359	1 993	152	466	178	1 557		10 942
Printing and Publications	5 106	366	278	39	2 778	-0-	-0-	1 415		9 984
Equipment								2 260	20 438	22 699
Other Direct Costs	1 104	190		8						1 302
Contributed Travel		410					9 680			10 090
	\$119 140	\$ 42 979	\$ 24 345	\$ 14 089	\$ 27 446	\$ 74 583	\$ 20 608	\$ 22 227	\$ 43 188	\$388 609
TOTALS										

Cents omitted without rounding.

BUREAU OF THE BUDGET CIRCULAR A-87 - PRINCIPLES FOR DETERMINING
COSTS OF GRANTS AND CONTRACTS WITH STATE AND LOCAL GOVERNMENTS

BUREAU OF THE BUDGET CIRCULAR A-87

EXECUTIVE OFFICE OF THE PRESIDENT

Bureau of the Budget

Washington, D. C. 20503

May 9, 1968

CIRCULAR NO. A-87

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Principles for determining costs applicable to grants and contracts with State and local governments.

1. Purpose. This Circular promulgates principles and standards for determining costs applicable to grants and contracts with State and local governments. They are designed to provide the basis for a uniform approach to the problem of determining costs and to promote efficiency and better relationships between grantees and their Federal counterparts.
2. Coverage. This Circular applies to all Federal agencies responsible for administering programs that involve grants and contracts with State and local governments. However, it does not apply to grants and contracts with (a) publicly financed educational institutions subject to Bureau of the Budget Circular No. A-21, and (b) publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies. Any other exceptions will be approved by the Bureau of the Budget in particular cases where adequate justification is presented.
3. Cost Principles. The principles to be followed in determining costs are set forth in Attachment A. Standards with respect to the allowability of selected items of cost are set forth in Attachment B.
4. Effective date. The principles will be applied at the earliest practicable date but not later than January 1, 1969, with respect to State governments and January 1, 1970, with respect to local governments. This arrangement will permit prompt implementation in programs where that is possible, but also allow time for study and development of necessary procedures in more complex programs.

PHILLIP S. HUGHES
Acting Director

Attachments

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PRINCIPLES FOR DETERMINING
COSTS APPLICABLE TO GRANTS AND CONTRACTS
WITH STATE AND LOCAL GOVERNMENTS

A. Purpose and scope.

1. Objectives. This Attachment sets forth principles for determining the allowable costs of programs administered by State and local governments under grants from and contracts with the Federal Government. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal and State or local participation in the financing of a particular grant. They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles, except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.

2. Policy guides. The application of these principles is based on the fundamental premises that:

a. State and local governments are responsible for the efficient and effective administration of grant and contract programs through the application of sound management practices.

b. The grantee or contractor assumes the responsibility for seeing that federally assisted program funds have been expended and accounted for consistent with underlying agreements and program objectives.

c. Each grantee or contractor organization, in recognition of its own unique combination of staff facilities and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration.

3. Application. These principles will be applied by all Federal agencies in determining costs incurred by State and local governments under Federal grants and cost reimbursement type contracts (including subgrants and subcontracts) except those with (a) publicly financed educational institutions subject to Bureau of the Budget Circular A-21, and (b) publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

B. Definitions.

1. Approval or authorization of the grantor Federal agency means documentation evidencing consent prior to incurring specific cost.

2. Cost allocation plan means the documentation identifying, accumulating, and distributing allowable costs under grants and contracts together with the allocation methods used.

3. Cost, as used herein, means cost as determined on a cash, accrual, or other basis acceptable to the Federal grantor agency as a discharge of the grantee's accountability for Federal funds.

4. Cost objective means a pool, center, or area established for the accumulation of cost. Such areas include organizational units, functions, objects or items of expense, as well as ultimate cost objectives including specific grants, projects, contracts, and other activities.

5. Federal agency means any department, agency, commission, or instrumentality in the executive branch of the Federal Government which makes grants to or contracts with State or local governments.

6. Grant means an agreement between the Federal Government and a State or local government whereby the Federal Government provides funds or aid in kind to carry out specified programs, services, or activities. The principles and policies stated in this Circular as applicable to grants in general also apply to any federally sponsored cost reimbursement type of agreement performed by a State or local government, including contracts, subcontracts and subgrants.

7. Grant program means those activities and operations of the grantee which are necessary to carry out the purposes of the grant, including any portion of the program financed by the grantee.

8. Grantee means the department or agency of State or local government which is responsible for administration of the grant.

9. Local unit means any political subdivision of government below the State level.

10. Other State or local agencies means departments or agencies of the State or local unit which provide goods, facilities, and services to a grantee.

11. Services, as used herein, means goods and facilities, as well as services.

12. Supporting services means auxiliary functions necessary to sustain the direct effort involved in administering a grant program or an activity providing service to the grant program. These services may be centralized in the grantee department or in some other agency, and include procurement, payroll, personnel functions, maintenance and operation of space, data processing, accounting, budgeting, auditing, mail and messenger service, and the like.

C. Basic guidelines.

1. Factors affecting allowability of costs. To be allowable under a grant program, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient administration of the grant program, be allocable thereto under these principles, and, except as specifically provided herein, not be a general expense required to carry out the overall responsibilities of State or local governments.

b. Be authorized or not prohibited under State or local laws or regulations.

c. Conform to any limitations or exclusions set forth in these principles, Federal laws, or other governing limitations as to types or amounts of cost items.

d. Be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part.

e. Be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.

f. Not be allocable to or included as a cost of any other federally financed program in either the current or a prior period.

g. Be net of all applicable credits.

2. Allocable costs.

a. A cost is allocable to a particular cost objective to the extent of benefits received by such objective.

b. Any cost allocable to a particular grant or cost objective under the principles provided for in this Circular may not be shifted to other Federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.

c. Where an allocation of joint cost will ultimately result in charges to a grant program, an allocation plan will be required as prescribed in section J.

3. Applicable credits.

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. Examples of such transactions are:

purchase discounts; rebates or allowances; recoveries or indemnities on losses; sale of publications, equipment, and scrap; income from personal or incidental services; and adjustments of overpayments or erroneous charges.

b. Applicable credits may also arise when Federal funds are received or are available from sources other than the grant program involved to finance operations or capital items of the grantee. This includes costs arising from the use or depreciation of items donated or financed by the Federal Government to fulfill matching requirements under another grant program. These types of credits should likewise be used to reduce related expenditures in determining the rates or amounts applicable to a given grant.

D. Composition of cost.

1. Total cost. The total cost of a grant program is comprised of the allowable direct cost incident to its performance, plus its allocable portion of allowable indirect costs, less applicable credits.

2. Classification of costs. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the grant or other ultimate cost objective. It is essential therefore that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct and indirect costs allocable under grant programs are provided in the sections which follow.

E. Direct costs.

1. General. Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally lodged. Direct costs may also be charged to cost objectives used for the accumulation of costs pending distribution in due course to grants and other ultimate cost objectives.

2. Application. Typical direct costs chargeable to grant programs are:

a. Compensation of employees for the time and effort devoted specifically to the execution of grant programs.

b. Cost of materials acquired, consumed, or expended specifically for the purpose of the grant.

c. Equipment and other approved capital expenditures.

d. Other items of expense incurred specifically to carry out the grant agreement.

e. Services furnished specifically for the grant program by other agencies, provided such charges are consistent with criteria outlined in Section G. of these principles.

F. Indirect costs.

1. General. Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities, to the grantee department. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect cost within a grantee department or in other agencies providing services to a grantee department. Indirect cost pools should be distributed to benefiting cost objectives on bases which will produce an equitable result in consideration of relative benefits derived.

2. Grantee departmental indirect costs. All grantee departmental indirect costs, including the various levels of supervision, are eligible for allocation to grant programs provided they meet the conditions set forth in this Circular. In lieu of determining the actual amount of grantee departmental indirect cost allocable to a grant program, the following methods may be used:

a. Predetermined fixed rates for indirect costs. A predetermined fixed rate for computing indirect costs applicable to a grant may be negotiated annually in situations where the cost experience and other pertinent facts available are deemed sufficient to enable the contracting parties to reach an informed judgment (1) as to the probable level of indirect costs in the grantee department during the period to be covered by the negotiated rate, and (2) that the amount allowable under the predetermined rate would not exceed actual indirect cost.

b. Negotiated lump sum for overhead. A negotiated fixed amount in lieu of indirect costs may be appropriate under circumstances where the benefits derived from a grantee department's indirect services cannot be readily determined as in the case of small, self-contained or isolated activity. When this method is used, a determination should be made that the amount negotiated will be approximately the same as the actual indirect cost that may be incurred. Such amounts negotiated in lieu of indirect costs will be treated as an offset to total indirect expenses of the grantee department before allocation to remaining activities. The base on which such remaining expenses are allocated should be appropriately adjusted.

3. Limitation on indirect costs.

a. Federal grants may be subject to laws that limit the amount of indirect cost that may be allowed. Agencies that sponsor grants of this type will establish procedures which will assure that the amount actually allowed for indirect costs under each such grant does not exceed the maximum allowable under the statutory limitation or the amount otherwise allowable under this Circular, whichever is the smaller.

b. When the amount allowable under a statutory limitation is less than the amount otherwise allocable as indirect costs under this Circular, the amount not recoverable as indirect costs under a grant may not be shifted to another federally sponsored grant program or contract.

G. Cost incurred by agencies other than the grantee.

1. General. The cost of service provided by other agencies may only include allowable direct costs of the service plus a prorata share of allowable supporting costs (section B.12.) and supervision directly required in performing the service, but not supervision of a general nature such as that provided by the head of a department and his staff assistants not directly involved in operations. However, supervision by the head of a department or agency whose sole function is providing the service furnished would be an eligible cost. Supporting costs include those furnished by other units of the supplying department or by other agencies.

2. Alternative methods of determining indirect cost. In lieu of determining actual indirect cost related to a particular service furnished by another agency, either of the following alternative methods may be used provided only one method is used for a specific service during the fiscal year involved.

a. Standard indirect rate. An amount equal to ten percent of direct labor cost in providing the service performed by another State agency (excluding overtime, shift, or holiday premiums and fringe benefits) may be allowed in lieu of actual allowable indirect cost for that service.

b. Predetermined fixed rate. A predetermined fixed rate for indirect cost of the unit or activity providing service may be negotiated as set forth in section F.2.a.

H. Cost incurred by grantee department for others.

1. General. The principles provided in section G. will also be used in determining the cost of services provided by the grantee department to another agency.

J. Cost allocation plan.

1. General. A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs

included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual charges.

2. Requirements. The allocation plan of the grantee department should cover all joint costs of the department as well as costs to be allocated under plans of other agencies or organizational units which are to be included in the costs of federally sponsored programs. The cost allocation plans of all the agencies rendering services to the grantee department, to the extent feasible, should be presented in a single document. The allocation plan should contain, but not necessarily be limited to, the following:

a. The nature and extent of services provided and their relevance to the federally sponsored programs.

b. The items of expense to be included.

c. The methods to be used in distributing cost.

3. Approval of cost allocation plan. The allocation plan for a given cost area or objective will serve all the Federal agencies involved.

a. At the State level, the Department of Health, Education, and Welfare will be responsible for the negotiation and approval of the cost allocation plans for central support services to grant programs. The approved plans will be accepted by other Federal agencies, unless an agency determines that the approved plan would result in significant inequitable or improper charges to programs for which it is responsible. The Department of Health, Education, and Welfare will collaborate with the other Federal agencies concerned in the development of guidance material concerning the cost allocation plan and in the negotiation and approval of the plan. It will also collaborate with the States concerning procedures for the administration of the cost allocation plan. The Department of Health, Education, and Welfare will be responsible for the audit of costs resulting from the cost allocation plan, the results of which will be accepted by other Federal agencies.

b. At the grantee department level in a State, and for local governments, Federal agencies will work towards the objective of designating a single Federal agency, the one with predominant interest, which will have responsibility similar to that set forth in a. above for the negotiation and approval of the cost allocation plan and for the audit of costs.

STANDARDS FOR SELECTED ITEMS OF COST

A. Purpose and applicability.

1. Objective. This Attachment provides standards for determining the allowability of selected items of cost.

2. Application. These standards will apply irrespective of whether a particular item of cost is treated as direct or indirect cost. Failure to mention a particular item of cost in the standards is not intended to imply that it is either allowable or unallowable, rather determination of allowability in each case should be based on the treatment of standards provided for similar or related items of cost. The allowability of the selected items of cost is subject to the general policies and principles stated in Attachment A of this Circular.

B. Allowable Costs.

1. Accounting. The cost of establishing and maintaining accounting and other information systems required for the management of grant programs is allowable. This includes cost incurred by central service agencies for these purposes. The cost of maintaining central accounting records required for overall State or Local government purposes, such as appropriation and fund accounts by the Treasurer, Comptroller, or similar officials, is considered to be a general expense of government and is not allowable.

2. Advertising. Advertising media includes newspapers, magazines, radio and television programs, direct mail, trade papers, and the like. The advertising costs allowable are those which are solely for:

- a. Recruitment of personnel required for the grant program.
- b. Solicitation of bids for the procurement of goods and services required.
- c. Disposal of scrap or surplus materials acquired in the performance of the grant agreement.
- d. Other purposes specifically provided for in the grant agreement.

3. Advisory councils. Costs incurred by State advisory councils or committees established pursuant to Federal requirements to carry out grant programs are allowable. The cost of like organizations is allowable when provided for in the grant agreement. .

4. Audit service. The cost of audits necessary for the administration and management of functions related to grant programs is allowable.

5. Bonding. Costs of premiums on bonds covering employees who handle grantee agency funds are allowable.

6. Budgeting. Costs incurred for the development, preparation, presentation, and execution of budgets are allowable. Costs for services of a central budget office are generally not allowable since these are costs of general government. However, where employees of the central budget office actively participate in the grantee agency's budget process, the cost of identifiable services is allowable.

7. Building lease management. The administrative cost for lease management which includes review of lease proposals, maintenance of a list of available property for lease, and related activities is allowable.

8. Central stores. The cost of maintaining and operating a central stores organization for supplies, equipment, and materials used either directly or indirectly for grant programs is allowable.

9. Communications. Communication costs incurred for telephone calls or service, telegraph, teletype service, wide area telephone service (WATS), centrex, telpak (tie lines), postage, messenger service and similar expenses are allowable.

10. Compensation for personal services.

a. General. Compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the grant agreement, including but not necessarily limited to wages, salaries, and supplementary compensation and benefits (section B.13.). The costs of such compensation are allowable to the extent that total compensation for individual employees: (1) is reasonable for the services rendered, (2) follows an appointment made in accordance with State or local government laws and rules and which meets Federal merit system or other requirements, where applicable; and (3) is determined and supported as provided in b. below. Compensation for employees engaged in federally assisted activities will be considered reasonable to the extent that is is consistent with that paid for similar work in other activities of the State or local government. In cases where the kinds of employees required for the federally assisted activities are not found in the other activities of the State or local government, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

b. Payroll and distribution of time. Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and approved in accordance with generally accepted practice of the State or local agency. Payrolls

must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

11. Depreciation and use allowances.

a. Grantees may be compensated for the use of buildings, capital improvements, and equipment through use allowances or depreciation. Use allowances are the means of providing compensation in lieu of depreciation or other equivalent costs. However, a combination of the two methods may not be used in connection with a single class of fixed assets.

b. The computation of depreciation or use allowance will be based on acquisition cost. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used in the computation. The computation will exclude the cost or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal Government through charges to Federal grant programs or otherwise, irrespective of where title was originally vested or where it presently resides. In addition, the computation will also exclude the cost of land. Depreciation or a use allowance on idle or excess facilities is not allowable, except when specifically authorized by the grantor Federal agency.

c. Where the depreciation method is followed, adequate property records must be maintained, and any generally accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for any specific asset or class of assets for all affected federally sponsored programs and must result in equitable charges considering the extent of the use of the assets for the benefit of such programs.

d. In lieu of depreciation, a use allowance for buildings and improvements may be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment (excluding items properly capitalized as building cost) will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable equipment.

e. No depreciation or use charge may be allowed on any assets that would be considered as fully depreciated, provided, however, that reasonable use charges may be negotiated for any such assets if warranted after taking into consideration the cost of the facility or item involved, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the facility or item for the purpose contemplated.

12. Disbursing service. The cost of disbursing grant program funds by the Treasurer or other designated officer is allowable. Disbursing services cover the processing of checks or warrants, from preparation to redemption, including the necessary records of accountability and reconciliation of such records with related cash accounts.

13. Employee fringe benefits. Costs identified under a. and b. below are allowable to the extent that total compensation for employees is reasonable as defined in section B.10.

a. Employee benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, court leave, military leave, and the like, if they are: (1) provided pursuant to an approved leave system, and (2) the cost thereof is equitably allocated to all related activities, including grant programs.

b. Employee benefits in the form of employers' contribution or expenses for social security, employees' life and health insurance plans, unemployment insurance coverage, workmen's compensation insurance, pension plans, severance pay, and the like, provided such benefits are granted under approved plans and are distributed equitably to grant programs and to other activities.

14. Employee morale, health and welfare costs. The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employees' counseling services, employee information publications, and any related expenses incurred in accordance with general State or local policy, are allowable. Income generated from any of these activities will be offset against expenses.

15. Exhibits. Costs of exhibits relating specifically to the grant programs are allowable.

16. Legal expenses. The cost of legal expenses required in the administration of grant programs is allowable. Legal services furnished by the chief legal officer of a State or local government or his staff solely for the purpose of discharging his general responsibilities as legal officer are unallowable. Legal expenses for the prosecution of claims against the Federal Government are unallowable.

17. Maintenance and repair. Costs incurred for necessary maintenance, repair, or upkeep of property which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

18. Materials and supplies. The cost of materials and supplies necessary to carry out the grant programs is allowable. Purchases made specifically for the grant program should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the grantee. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges are a proper part of material cost.

19. Memberships, subscriptions and professional activities.

a. Memberships. The cost of membership in civic, business, technical and professional organizations is allowable provided: (1) the benefit from the membership is related to the grant program, (2) the expenditure is for agency membership, (3) the cost of the membership is reasonably related to the value of the services or benefits received, and (4) the expenditure is not for membership in an organization which devotes a substantial part of its activities to influencing legislation.

b. Reference material. The cost of books, and subscriptions to civic, business, professional, and technical periodicals is allowable when related to the grant program.

c. Meetings and conferences. Costs are allowable when the primary purpose of the meeting is the dissemination of technical information relating to the grant program and they are consistent with regular practices followed for other activities of the grantee.

20. Motor pools. The costs of a service organization which provides automobiles to user grantee agencies at a mileage or fixed rate and/or provides vehicle maintenance, inspection and repair services are allowable.

21. Payroll preparation. The cost of preparing payrolls and maintaining necessary related wage records is allowable.

22. Personnel administration. Costs for the recruitment, examination, certification, classification, training, establishment of pay standards, and related activities for grant programs, are allowable.

23. Printing and reproduction. Cost for printing and reproduction services necessary for grant administration, including but not limited to forms, reports, manuals, and informational literature, are allowable. Publication costs of reports or other media relating to grant program accomplishments or results are allowable when provided for in the grant agreement.

24. Procurement service. The cost of procurement service, including solicitation of bids, preparation and award of contracts, and all phases of contract administration in providing goods, facilities and services for grant program, is allowable.

25. Taxes. In general, taxes or payments in lieu of taxes which the grantee agency is legally required to pay are allowable.

26. Training and education. The cost of in-service training, customarily provided for employee development which directly or indirectly benefits grant programs is allowable. Out-of-service training involving extended periods of time is allowable only when specifically authorized by the grantor agency.

27. Transportation. Costs incurred for freight, cartage, express, postage and other transportation costs relating either to goods purchased, delivered, or moved from one location to another are allowable.

28. Travel. Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business incident to a grant program. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in nonfederally sponsored activities. The difference in cost between first-class air accommodations and less-than-first-class air accommodations is unallowable except when less-than-first-class air accommodations are not reasonably available.

C. Costs allowable with approval of grantor agency.

1. Automatic data processing. The cost of data processing services to grant programs is allowable. This cost may include rental of equipment or depreciation on grantee-owned equipment. The acquisition of equipment, whether by outright purchase, rental-purchase agreement or other method of purchase, is allowable only upon specific prior approval of the grantor Federal agency as provided under the selected item for capital expenditures.

2. Building space and related facilities. The cost of space in privately or publicly owned buildings used for the benefit of the grant program is allowable subject to the conditions stated below. The total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately owned building in the same locality. The cost of space procured for grant program usage may not be charged to the program for periods of nonoccupancy, without authorization of the grantor Federal agency.

a. Rental cost. The rental cost of space in a privately owned building is allowable.

b. Maintenance and operation. The cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations and the like, are allowable to the extent they are not otherwise included in rental or other charges for space.

c. Rearrangements and alterations. Cost incurred for rearrangement and alteration of facilities required specifically for the grant program or those that materially increase the value or useful life of the facilities (section C.3.) are allowable when specifically approved by the grantor agency.

d. Depreciation and use allowances on publicly owned buildings. These costs are allowable as provided in section B.11.

e. Occupancy of space under rental-purchase or a lease with option-to-purchase agreement. The cost of space procured under such arrangements is allowable when specifically approved by the Federal grantor agency.

3. Capital expenditures. The cost of facilities, equipment, other capital assets, and repairs which materially increase the value or useful life of capital assets is allowable when such procurement is specifically approved by the Federal grantor agency. When assets acquired with Federal grant funds are (a) sold, (b) no longer available for use in a federally sponsored program, or (c) used for purposes not authorized by the grantor agency, the Federal grantor agency's equity in the asset will be refunded in the same proportion as Federal participation in its cost. In case any assets are traded on new items, only the net cost of the newly acquired assets is allowable.

4. Insurance and indemnification.

a. Costs of insurance required, or approved and maintained pursuant to the grant agreement, is allowable.

b. Costs of other insurance in connection with the general conduct of activities is allowable subject to the following limitations:

(1) Types and extent and cost of coverage will be in accordance with general State or local government policy and sound business practice.

(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property is unallowable except to the extent that the grantor agency has specifically required or approved such costs.

c. Contributions to a reserve for a self-insurance program approved by the Federal grantor agency are allowable to the extent that the type of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.

d. Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the grant agreement. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and

minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools which occur in the ordinary course of operations, are allowable.

e. Indemnification includes securing the grantee against liabilities to third persons and other losses not compensated by insurance or otherwise. The Government is obligated to indemnify the grantee only to the extent expressly provided for in the grant agreement, except as provided in d. above.

5. Management studies. The cost of management studies to improve the effectiveness and efficiency of grant management for ongoing programs is allowable except that the cost of studies performed by agencies other than the grantee department or outside consultants is allowable only when authorized by the Federal grantor agency.

6. Preagreement costs. Costs incurred prior to the effective date of the grant or contract, whether or not they would have been allowable thereunder if incurred after such date, are allowable when specifically provided for in the grant agreement.

7. Professional services. Cost of professional services rendered by individuals or organizations not a part of the grantee department is allowable subject to such prior authorization as may be required by the Federal grantor agency.

8. Proposal costs. Costs of preparing proposals on potential Federal Government grant agreements are allowable when specifically provided for in the grant agreement.

D. Unallowable costs.

1. Bad debts. Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable.

2. Contingencies. Contributions to a contingency reserve or any similar provision for unforeseen events are unallowable.

3. Contributions and donations. Unallowable.

4. Entertainment. Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.

5. Fines and penalties. Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations are unallowable.

6. Governor's expenses. The salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision are considered a cost of general State or local government and are unallowable.

7. Interest and other financial costs. Interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith, are unallowable except when authorized by Federal legislation.

8. Legislative expenses. Salaries and other expenses of the State legislature or similar local governmental bodies such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction, are unallowable.

9. Underrecovery of costs under grant agreements. Any excess of cost over the Federal contribution under one grant agreement is unallowable under other grant agreements.



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